



DEPARTMENT OF DEFENSE

AGENCY-WIDE
FINANCIAL STATEMENTS

FOR FY 1997
FINANCIAL ACTIVITY

February 27, 1998

**DEPARTMENT OF DEFENSE
AGENCY-WIDE FINANCIAL STATEMENTS
FOR FY 1997 FINANCIAL ACTIVITY**

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UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

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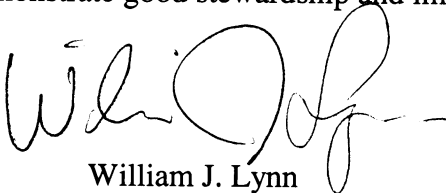


MESSAGE FROM THE CHIEF FINANCIAL OFFICER

It is my pleasure to present the Department of Defense (DoD) agency-wide financial statements for FY 1997. This is the second year that the Department has prepared agency-wide financial statements as required by the Chief Financial Officers (CFO) Act and the Government Management and Reform Act.

The Department continues to focus on financial management reform. While many of the reform efforts directly affect the preparation of the Department's financial statements, others are vitally important because of the need to increase the effectiveness of the Department's financial resources. While the quality of the Department's FY 1997 statements represents a significant improvement over its FY 1996 statements, much work still lies ahead.

Consistent with the objectives of the CFO Act, the Department continues to work toward integration of program and financial information to provide for more effective program management at all levels. This effort is particularly challenging due to the number of financial and nonfinancial systems currently being used to support the Department's information needs. However, I am encouraged by the actions that have been taken and the determination and dedication of the military and civilian personnel involved in these reform efforts. I am confident that during the FY 1998-2000 time frame, continuing progress will be achieved in the Department's effort to clearly demonstrate good stewardship and improve financial management.



William J. Lynn

DEPARTMENT OF DEFENSE

***AGENCY-WIDE
FINANCIAL STATEMENTS***

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DESCRIPTION OF THE REPORTING ACTIVITY

There are fifteen reporting entities within the Department of Defense (DoD). Those reporting entities are Department of the Army general funds, the Department of Navy general funds, the Department of the Air Force general funds, the Army Working Capital Fund (WCF), the Navy WCF, the Air Force WCF, the Defense Logistics Agency WCF, the Defense Finance and Accounting Service WCF, the Defense Commissary Agency WCF, the Joint Logistics Systems Center WCF, the U. S. Transportation Command, the Defense Information Systems Agency WCF, the DoD Military Retirement Trust Fund, the National Defense Stockpile Transaction Fund, and the U.S. Army Corps of Engineers (Civil Works). Additionally, consolidated financial statements are prepared for the “Total Department of Defense,”

The Office of the Inspector General (OIG), DoD, renders opinions on the Department’s financial statements. Opinions will be provided for the financial statements of each of the entities identified above with the exception of the statements for the U. S. Transportation Command. Additionally, the OIG renders an opinion on the DoD consolidated financial statements prepared for the “Total Department of Defense,”

Included within the “Total Department of Defense” financial statements will be a reporting entity entitled “Other Defense Organizations.” This entity will include principal statements for the various Defense Agencies, as well as financial statements for that portion of Defense-wide (so-called “97” funds) entrusted to the Military Departments. While the IG, DoD will not issue separate opinions on these financial statements; the statements will be subject to audit by the OIG.

Stand alone financial statements include the Overview of the Reporting Activity, Principal Statements and Related Notes, Consolidating Financial Statements (where required), and Supplemental Financial and Management Information. The stand alone financial statements will include Component level adjustments and eliminating entries.

Organizational Structure of the Department of Defense. The Department of Defense (DoD) is responsible for providing the military forces needed to deter war and protect the security of the United States. The major elements of these forces are the Army, Navy, Air Force, and Marine Corps. Under the President, who is also Commander-in-Chief, the Secretary of Defense exercises authority, direction, and control over the Department which includes the Office of the Secretary of Defense, the Chairman of the Joint Chiefs of Staff and the Joint Staff, three Military Departments, nine Unified Combatant Commands, the DoD Inspector General, fifteen Defense Agencies, and nine DoD Field Activities.

The Secretary of Defense is the principal defense policy advisor to the President and is responsible for the formulation of general defense policy and policy related to all matters of direct and primary concern to the DoD, and for the execution of approved policy. Under the direction of the President, the Secretary exercises authority, direction, and control over the Department of Defense.

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The Deputy Secretary of Defense is delegated full power and authority to act for the Secretary of Defense and to exercise the powers of the Secretary on any and all matters for which the Secretary is authorized to act pursuant to law.

The Office of the Secretary of Defense. The Office of the Secretary of Defense (OSD) is the principal staff element of the Secretary in the exercise of policy development, planning, resource management, fiscal, and program evaluation responsibilities. OSD includes the immediate offices of the Secretary and Deputy Secretary of Defense, Under Secretary of Defense (Acquisition and Technology), Under Secretary of Defense (Policy), Under Secretary of Defense (Comptroller), Under Secretary of Defense (Personnel and Readiness), Director of Defense Research and Engineering, Assistant Secretaries of Defense, General Counsel, Director of Operational Test and Evaluation, Assistants to the Secretary of Defense, Director of Administration and Management, and such other staff offices as the Secretary establishes to assist in carrying out assigned responsibilities.

- **Under Secretary of Defense (Acquisition and Technology).** Under the direction of the Secretary of Defense, the Under Secretary of Defense (Acquisition and Technology) is the principal staff assistant and advisor to the Secretary and Deputy Secretary of Defense for all matters relating to the DoD acquisition system; research and development; advanced technology; test and evaluation; production; logistics; military construction; procurement; economic security; and atomic energy.
- **Under Secretary of Defense (Policy).** Under the direction of the Secretary of Defense, the Under Secretary of Defense (Policy) is the principal staff assistant and advisor to the Secretary and Deputy Secretary of Defense for all matters concerning the formulation of national security and defense policy and the integration and oversight of DoD policy and plans to achieve national security objectives.
- **Under Secretary of Defense (Comptroller).** Under the direction of the Secretary of Defense, the Under Secretary of Defense (Comptroller) (USD(C)) is the principal advisor and assistant to the Secretary and Deputy Secretary of Defense for budgetary and fiscal matters (including financial management, accounting policy and systems, budget formulation and execution, and contract audit administration and organization), DoD program analysis and evaluation, and general management improvement programs. In addition, the USD(C) is the Chief Financial Officer of the Department of Defense.
- **Under Secretary of Defense (Personnel and Readiness).** Under the direction of the Secretary of Defense, the Under Secretary of Defense (Personnel and Readiness) is the principal staff assistant and advisor to the Secretary and Deputy Secretary of Defense for Total Force management as it relates to readiness; National Guard and Reserve component affairs; health affairs; training; and personnel requirements and management, including equal opportunity, morale, welfare, and quality of life matters.
- **Assistant Secretary of Defense (Command, Control, Communications, and Intelligence).** Under the direction of the Secretary of Defense, the Assistant Secretary of Defense (Command, Control, Communications, and Intelligence) is the principal staff assistant and

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advisor to the Secretary and Deputy Secretary of Defense for C3I, information management, information operations, counter-intelligence, and security countermeasures matters, including warning, reconnaissance, and intelligence and intelligence-related activities conducted by the Department of Defense.

- **Assistant Secretary of Defense (Legislative Affairs).** Under the direction of the Secretary of Defense, the Assistant Secretary of Defense (Legislative Affairs) is the principal staff assistant and advisor to the Secretary and Deputy Secretary of Defense for DoD relations with the members of Congress.
- **Assistant Secretary of Defense (Public Affairs).** Under the direction of the Secretary of Defense, the Assistant Secretary of Defense (Public Affairs) is the principal staff advisor and assistant to the Secretary and Deputy Secretary of Defense for DoD public information, internal information, the Freedom of Information Act, mandatory declassification review and clearance of DoD information for public release, community relations, information training, and audiovisual matters.
- **General Counsel of the DoD.** Under the direction of the Secretary of Defense, the General Counsel of the DoD serves as chief legal officer of the Department of Defense. The GC, DoD is responsible for providing advice to the Secretary and Deputy Secretary of Defense regarding all legal matters and services performed within, or involving, the Department of Defense; and for providing legal advice to OSD organizations and, as appropriate, other DoD Components.
- **Director of Operational Test and Evaluation (DOT&E).** Under the direction of the Secretary of Defense, the Director of Operational Test and Evaluation (OT&E) is the principal staff assistant and advisor to the Secretary and Deputy Secretary of Defense on OT&E in the DoD and the principal OT&E official within the senior management of the DoD.
- **Assistant to the Secretary of Defense (Intelligence Oversight).** Under the direction of the Secretary of Defense, the Assistant to the Secretary of Defense (Intelligence Oversight)(ASD(IO)) is responsible for the independent oversight of all intelligence activities in the Department of Defense. In this capacity, the ASD(IO) shall ensure that all activities performed by intelligence units and all intelligence activities performed by non-intelligence units, are conducted in compliance with Federal law and other laws as appropriate, Executive Orders and Presidential Directives, and DoD Directives System issuances.
- **Director of Administration and Management.** Under the direction of the Deputy Secretary of Defense, the Director of Administration and Management is the principal staff assistant and advisor to the Secretary and Deputy Secretary of Defense on DoD-wide organizational and administrative management matters.

Department of the Army. The Army includes land combat and service forces and such aviation and water transport as may be organic therein. It is organized, trained, and equipped primarily for prompt and sustained combat incident to operations on land. It is responsible for the preparation and sustainment of land forces necessary for the effective prosecution of war except as otherwise assigned and, according to integrated joint mobilization plans, for the expansion of the peacetime

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components of the Army to meet the needs of war. The Army is a total force, comprised of both active and reserve forces.

The U.S. Army Mission is to:

- Preserve the peace and security, and provide for the defense of the United States, the Territories, Commonwealths, and possessions, and any areas occupied by the United States.
- Support national policies.
- Implement national objectives.
- Overcome any nations responsible for aggressive acts that imperil the peace and security of the United States.

Since the birth of our nation, America's Army has served the United States with distinction, both at home and abroad, in peace and in war. At the threshold of the 21st century, the Army is a Total Force, an institution with people at its core--Active, National Guard, Army Reserve, civilian employees, families, and retired members. The strength and character of the Army's soldiers and civilians are the linchpin in maintaining our Army as the finest in the world.

A new global security environment exists as a result of social, political, and military changes during the past decade. No longer a world in which two hostile superpowers face each other, today's environment includes threats--and opportunities--in a wide number of areas. The Army has evolved to be a strategically relevant joint force to meet the challenges of today's world. It is our nation's force of decision--a full spectrum force--trained and ready to respond to a wide range of crises, from fighting and winning major theater wars, to peacekeeping, to humanitarian relief missions, to disaster relief in communities at home. America's Army is a central element of our National Military Strategy, in shaping the international security environment, responding to a wide range of crises, and preparing now for an uncertain future.

As described in the May 1996 Army White Paper "Force of Decision...Capabilities for the 21st Century," the primary mission of America's Army remains constant: to fight and win the nation's wars. In an uncertain world, the Total Army also performs a wide variety of other missions around the world and at home, including deterring potential adversaries, reassuring and lending stability to allies, and supporting our communities in times of emergency.

The Army provides the nation with unique capabilities for implementing the National Security Strategy. Throughout history, wars have been won by forces on the ground. Only soldiers on the ground can take and hold territory. America's Total Army, with a full spectrum of capabilities, is able to project its forces and establish direct, continuous, and comprehensive control over land, resources, and people to achieve victory and ensure an enduring peace. Whatever the mission, committing the Army commits the nation. There is no greater expression of national resolve and will than to put our soldier--America's sons and daughters--on the ground.

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Department of the Navy. The Department of the Navy consists of two uniformed Services: the United States Navy and the United States Marine Corps. The National Military Strategy specifies three tasks for the armed forces:

- Shape the international environment.
- Respond to the full spectrum of crises.
- Prepare now for an uncertain future.

Forward-deployed naval forces are engaged around the world on a daily basis to accomplish each of these tasks. The Navy-Marine Corps team answered the nation's call in 1997, from continued support of international operations in the Arabian Gulf and Adriatic Sea, protecting American citizens during noncombatant evacuations in Albania, Sierra Leone, and the Democratic Republic of the Congo, to humanitarian assistance during disasters such as the recovery operations associated with the crash of Korean airliner KAL 801 in Guam. Carrier battle groups and amphibious ready groups with embarked Marine expeditionary units provide the National Command Authorities (NCA) with a rapid, flexible response capability across the spectrum of operations. In the future, the nation's fundamental strategic values will flow from the ability to sail unfettered throughout the world, to shape and respond using naval forces, as required, without restriction--anytime, anywhere.

The United States Navy. The Department of the Navy's primary task is to provide the nation combat-ready, sea-based, forward-deployed, and forward-engaged naval forces. The Department of the Navy (DoN) is committed to ensuring that naval forces can continue to immediately respond to national security tasking, when and wherever required. The Department understands that the responsive, adaptable, and combat credible naval expeditionary forces of tomorrow depend upon the correct programmatic and acquisition decisions of today.

Naval forces are built to fight and win wars. But an equally important role is to be positioned forward to prevent conflict. The forward naval forces provide:

- Deterrence of aggression.
- Enhancement of regional stability, including countering the proliferation of weapons of mass destruction.
- Protection and promotion of U.S. interests.
- Improvement of interoperability with key allies.
- Readiness to provide a timely initial crisis response.

In cooperation with our friends and allies, naval forces are deployed near potential flashpoints to prevent the emergence of dangers to shared interests. Partnership is developed and enhanced when we promote interoperability at the operational and tactical levels with the naval, air, and

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ground forces of the most likely coalition partners. Exercises that reassure friends and build coalitions are the stock-in-trade of Navy and Marine Corps units.

The United States Marine Corps. The Marine Corps was created on November 10, 1775, in Philadelphia, PA, by a resolution of the Continental Congress which (authorized) "raised two battalions of Marines." In 1834 the Marines became part of the Department of the Navy. The National Security Act of 1947, amended in 1952, states the present structure, missions, and functions of the Marine Corps. The United States Marine Corps, within the Department of the Navy, is organized as to include not less than three combat divisions and three air wings, and such other land combat, aviation and other services as may be organic therein. The Marine Corps is organized, trained, and equipped to provide fleet marine forces of combined arms, together with supporting air components, for service with the fleet in the seizure or defense of advanced naval bases and for the conduct of such land operations as may be essential to the prosecution of a naval campaign.

In addition, the Marine Corps provides detachments and organizations for service on armed vessels of the Navy, provides security detachments for the protection of naval property at naval stations and bases, and performs such other duties as the President may direct. However, these additional duties may not detract from or interfere with the operations for which the Marine Corps is primarily organized.

The Marine Corps develops, in coordination with the Army and the Air Force, those phases of amphibious operations that pertain to the tactics, techniques, and equipment used by landing forces. The Marine Corps is responsible, in accordance with integrated joint mobilization plans, for the expansion of peacetime components of the Marine Corps to meet the needs of war.

Department of the Air Force. The mission of the U.S. Air Force is to defend the United States through control and exploitation of air and space. Teamed with the Army, Navy, and Marine Corps, the Air Force is prepared to fight and win any war if deterrence fails. The Air Force is responsible for providing:

- Aircraft and missile forces necessary to prevent or fight a general war.
- Land-based air forces needed to establish air superiority, interdict the enemy, and provide air support of ground forces in combat.
- The primary aerospace forces for the defense of the United States against air and missile attack.
- The primary airlift capability for use by all of the nation's military services.
- Major space research and development support for the Department of Defense.
- Assistance to the National Aeronautics and Space Administration in conducting our nation's space program.

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In 1997, America celebrated our Air Force's 50th Anniversary honoring the men, women, and machines that took air power from its infancy to maturity. While 1997 was a time to reflect, it was also a time to continue shaping our destiny--the evolution of today's air and space force to the space and air force of tomorrow.

The Air Force is charting a future that conforms fully with visions outlined by the President's National Security Strategy and the Chairman of the Joint Chiefs of Staff's National Military Strategy. The Air Force contribution to this vision, *Global Engagement: A Vision for the 21st Century Air Force*, was published in November 1996. It extends across the full range of Air Force issues--operations, infrastructure, and personnel--and will shape the Air Force throughout the first quarter of the 21st century. *Global Engagement* defines the Air Force core competencies--competencies that stem from the speed, flexibility, and global range of aerospace forces--and supports the joint goals established in the Chairman's Joint vision 2010. *Global Engagement* is being implemented through the United States Air Force Long-Range Plan (LRP). The LRP provides a framework for programs with directive statements necessary to make *Global Engagement* actionable and end states which describe the capabilities the Air Force must possess to realize this vision. *Global Engagement* and our long-range planning initiatives guided the Air Force's participation in the Quadrennial Defense Review (QDR) and are key to our role in the resulting new strategy.

The QDR strategy that is now reflected in the 1997 National Security Strategy, the latest edition of National Military Strategy, and the Defense Planning Guidance emphasizes the continuing need to deter aggression by maintaining the ability to rapidly halt enemies in two major theater wars, nearly simultaneously. This strategy depends heavily on the speed, range, agility, and overwhelming firepower of aerospace forces. Such forces give the National Command Authorities and theater commanders additional flexibility and open new political and military options for achieving theater objectives. Readiness is key to maintaining this capability.

The Joint Chiefs of Staff. The Joint Chiefs of Staff (JCS), headed by the Chairman of the Joint Chiefs of Staff, consists of the Chairman; the Vice Chairman, JCS; the Chief of Staff, U.S. Army; the Chief of Naval Operations; the Chief of Staff, U.S. Air Force; and the Commandant of the Marine Corps, and supported, subject to the authority, direction, and control of the Chairman, by the Joint Staff, constitute the immediate military staff of the Secretary of Defense. The Chairman of the JCS is the principal military advisor to the President, the National Security Council, and the Secretary of Defense. The Chiefs of Service are the senior military officers of their respective Services and are responsible for keeping the Secretaries of the Military Departments fully informed on matters considered or acted upon by the JCS, and are military advisers to the President, the National Security Council, and the Secretary of Defense. The Vice Chairman of the JCS performs such duties as may be prescribed by the Chairman with the approval of the Secretary of Defense. When there is a vacancy in the Office of the Chairman or in the absence or disability of the Chairman, the Vice Chairman acts as Chairman and performs the duties of the Chairman until a successor is appointed or the absence or disability ceases.

The Unified Commands. The Unified Combatant Commands are responsible to the President and the Secretary of Defense for accomplishing the military missions assigned to them.

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Commanders of the Unified Combatant Commands exercise command authority over forces assigned to them as directed by the Secretary of Defense. The operational chain of command runs from the President to the Secretary of Defense to the Commanders of the Unified Combatant Commands. The Chairman of the Joint Chiefs of Staff functions within the chain of command by transmitting to the Commanders of the Unified Combatant Commands the orders of the President or the Secretary of Defense. Unified Combatant Commands include the European Command, Pacific Command, Atlantic Command, Southern Command, Special Operations Command, Strategic Command, Central Command, Transportation Command, and Space Command.

The Inspector General of the Department of Defense. The Inspector General of the Department of Defense serves as an independent and objective official in the Department of Defense who is responsible for conducting, supervising, monitoring, and initiating audits, investigations, and inspections relating to programs and operations of the Department of Defense. The Inspector General provides leadership and coordination and recommends policies for activities designed to promote economy, efficiency, and effectiveness in the administration of, and to prevent and detect fraud and abuse in, such programs and operations. The Inspector General is also responsible for keeping the Secretary of Defense and the Congress fully and currently informed about problems and deficiencies relating to the administration of such programs and operations and the necessity for, and progress of, corrective action.

The Defense Agencies. The Defense Agencies, authorized by the Secretary of Defense pursuant to the provisions of Title 10, United States Code, perform selected support and service functions on a Department-wide basis. Defense Agencies that are assigned wartime support missions are designated as Combat Support Agencies.

- **Defense Advanced Research Projects Agency.** The Defense Advanced Research Projects Agency (DARPA), under the authority, direction, and control of the Director for Defense Research and Engineering, serves as the central research and development organization of the DoD with a primary responsibility to maintain U.S. technological superiority over potential adversaries. The DARPA pursues imaginative and innovative research and development projects offering significant military utility; manages and directs the conduct of basic and applied research and development that exploits scientific breakthroughs and demonstrates the feasibility of revolutionary approaches for improved cost and performance of advanced technology; and, stimulates a greater emphasis on prototyping in defense systems by conducting prototype projects that embody technology that might be incorporated in joint programs, programs in support of deployed U.S. Forces (including the Unified Combatant Commands), or selected Military Department programs, and on request, assist the Military Departments in their own prototyping programs.
- **Ballistic Missile Defense Organization.** The Ballistic Missile Defense Organization (BMDO), under the authority, direction, and control of the Under Secretary of Defense (Acquisition and Technology), is responsible for managing and directing DoD's Ballistic Missile Defense acquisition programs, which include theater missile defense and a national missile defense for the United States. The BMDO also is responsible for the continuing research and development of follow-on technologies that are relevant for long-term ballistic missile defense. These programs will build a technical foundation for evolutionary growth in future ballistic missile defenses. In developing these acquisition and technology programs,

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BMDO utilizes the services of the Military Departments, the Department of Energy, private industries, and educational and research institutions.

- **Defense Commissary Agency.** The Defense Commissary Agency (DeCA), under the authority, direction, and control of the Assistant Secretary of Defense (Force Management Policy) is responsible for providing an efficient and effective worldwide system of commissaries for the resale of groceries and household supplies at the lowest practical price (consistent with quality) to members of the Military Services, their families, and other authorized patrons, while maintaining high standards for quality, facilities, products, and service.
- **Defense Contract Audit Agency.** The Defense Contract Audit Agency (DCAA), under the authority, direction, and control of the Under Secretary of Defense (Comptroller), is responsible for performing all contract audits for the Department of Defense, and providing accounting and financial advisory services regarding contracts and subcontracts to all DoD Components responsible for procurement and contract administration. These services are provided in connection with negotiation, administration, and settlement of contracts and subcontracts. DCAA also provides contract audit services to other Government agencies, as appropriate.

The DCAA, is responsible for performing all contract audits for the Department of Defense, and providing accounting and financial advisory services regarding contracts and subcontracts to all DoD Components responsible for procurement and contract administration. These services are provided in connection with negotiation, administration, and settlement of contracts and subcontracts. DCAA also provides contract audit services to some other Government Agencies.

- **Defense Finance and Accounting Service.** The Defense Finance and Accounting Service (DFAS), under the authority, direction, and control of the Under Secretary of Defense (Comptroller), is responsible for standardizing financial and accounting information that will be accurate, comprehensive, and timely. To accomplish this, the Director, DFAS shall direct finance and accounting requirements, systems, and functions for all appropriated, nonappropriated, working capital, revolving, and trust fund activities, including security assistance; establish and enforce requirements, principles, standards, systems, procedures, and practices necessary to comply with finance and accounting statutory and regulatory requirements applicable to the DoD; provide finance and accounting services for DoD Components and other Federal activities, as designated by the Under Secretary of Defense (Comptroller); and, direct the consolidation, standardization, and integration of finance and accounting requirements, functions, procedures, operations, and systems within the DoD and ensure their proper relationship with other DoD functional areas (e.g., budget, personnel, logistics, acquisition, civil engineering, etc.).

The Defense Finance and Accounting Service (DFAS) is the accounting firm of the Department of Defense (DoD). DFAS was activated on January 15, 1991, to improve the overall effectiveness of DoD financial management through the consolidation, standardization and integration of finance and accounting procedures, operations and systems. Finally, DFAS

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is responsible for identifying and implementing finance and accounting requirements, systems and functions for appropriated and non-appropriated funds, as well as working capital, revolving funds and trust fund activities--including security assistance.

- **Defense Information Systems Agency.** The Defense Information Systems Agency (DISA) is a Combat Support Agency of the DoD under the authority, direction, and control of the Assistant Secretary of Defense (Command, Control, Communications, and Intelligence). The DISA is responsible for planning, developing and supporting command, control, communications (C3) and information systems that serve the needs of the National Command Authorities under all conditions of peace and war. It provides guidance and support on technical and operational C3 and information systems issues affecting the Office of the Secretary of Defense, the Military Departments, the Chairman of the Joint Chiefs of Staff, the Unified Combatant Commands, and the Defense Agencies. It ensures the interoperability of the Worldwide Military Command and Control System, the Defense Communications System, theater and tactical command and control systems, NATO and/or allied C3 Systems, and those national and/or international commercial systems that effect the DISA mission. It supports national security emergency preparedness telecommunications functions of the National Communications System as prescribed by Executive Order 12472, Assignment of National Security and Emergency Preparedness Telecommunications Functions, April 3, 1984.
- **Defense Intelligence Agency.** The Defense Intelligence Agency (DIA) is a Combat Support Agency of the DoD under the authority, direction, and control of the Assistant Secretary of Defense (Command, Control, Communications, and Intelligence). Under its Director, DIA shall collect, produce, or, through tasking and coordination, provide military and military-related intelligence for the Secretary of Defense, the Chairman of the Joint Chiefs of Staff, other Defense components, and, as appropriate, non-Defense agencies; collect and provide military intelligence for national foreign intelligence and counterintelligence products; coordinate all DoD intelligence collection requirements; manage the Defense Attaché system; provide foreign intelligence and counterintelligence staff support to the Chairman of the Joint Chiefs of Staff; and, manage the General Defense Intelligence Program.
- As a Combat Support Agency of the Department of Defense, the DIA's mission is to provide timely, objective and cogent military intelligence to the warfighters--soldiers, sailors, airmen, marines--and to the decision makers and policymakers of the U.S. Department of Defense and the U.S. Government.
- **Defense Investigative Service.** The Defense Investigative Service (DIS), under the authority, direction, and control of the Assistant Secretary of Defense (Command, Control, Communications, and Intelligence), conducts all Personnel Security Investigations (PSIs) for DoD Components and, when appropriate, also conducts PSIs for other U.S. Government activities. These PSIs include investigation of allegations of subversive affiliations, adverse suitability information, or any other situation that requires resolution to complete the PSI. The DIS is also responsible for the four major programs involving industrial security: the Defense Industrial Security Program; the Key Assets Protection Program; the Inspection Program for Contractors with conventional arms, ammunition and explosives, and the Certification Program for Contractors with very high speed integrated circuits.

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- **Defense Legal Services Agency.** The Defense Legal Services Agency (DLSA), under the authority, direction, and control of its Director, who also serves as the General Counsel of the Department of Defense, provides legal advice and services for the Defense Agencies, DoD Field Activities, and other assigned organizations. This includes technical support and assistance for development of the DoD Legislative Program; coordinating DoD positions on legislation and Presidential Executive Orders; providing a centralized legislative document reference and distribution point for the DoD; maintaining the Department's historical legislative files; developing DoD policy for standards of conduct and administering the Standards of Conduct Program for the OSD and other assigned organizations; and administering the Defense Industrial Security Clearance Review Program.
- **Defense Logistics Agency.** The Defense Logistics Agency (DLA), is a Combat Support Agency of the DoD under the authority, direction, and control of the Under Secretary of Defense (Acquisition and Technology). The DLA provides worldwide logistics support for the missions of the Military Departments and the Unified Combatant Commands under conditions of peace and war. The DLA also provides logistics support to other DoD Components and certain Federal agencies, foreign governments, international organizations, and others as authorized. The DLA provides materiel commodities and items of supply that have been determined, through the application of approved criteria, to be appropriate for integrated management on behalf of all DoD Components, or that have been otherwise specifically assigned by appropriate authority. The DLA furnishes logistics services directly associated with the supply management function and other support services including scientific and technical information, federal cataloging, industrial plant equipment, reutilization and marketing and systems analysis, design, procedural development and maintenance for supply and service systems, industrial plant equipment storage and issuance, DLA logistics systems development, and the National Defense Stockpile Program. The DLA maintains a wholesale distribution system for assigned items. In addition, the DLA provides contract administration service in support of the Military Departments, other DoD Components, Federal civil agencies and, when authorized, to foreign governments and others.
- **Defense Special Weapons Agency (DSWA).** The Defense Special Weapons Agency (DSWA), under the authority, direction, and control of the Assistant to the Secretary of Defense (Nuclear and Chemical and Biological Defense Programs (NCB)) (ATSD(NCB)), supports the DoD and other Federal Agencies on matters concerning nuclear weapons, nuclear weapons system acquisitions, nuclear weapons effects on weapons systems and forces, and nuclear weapons safety and security. During wartime and international crisis, in accordance with national priorities and, as directed by the ATSD (NCB), the DSWA shall redirect its resources to support the Chairman of the Joint Chiefs of Staff and the Commanders of the Unified Combatant Commands in analyzing nuclear weapons planning and action options, and reconstituting nuclear forces.

The Defense Special Weapons Agency (DSWA) serves as the DoD's center for nuclear and advanced weapons effects expertise. The Agency's mission is to research and develop technologies to support military systems development and operational requirements. DSWA also manages the military nuclear weapons stockpile and conducts programs associated with

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Cooperative Threat Reduction (Nunn-Lugar), arms control technology and counter-proliferation support. Through the use of simulators and computer models, DSWA maintains the scientific expertise and develops data necessary to ensure advanced conventional systems, nuclear systems and command and control assets will continue to operate in potential nuclear environments. This expertise is also used to provide commanders with options for effective targeting against underground or hardened structures, as well as enhanced capabilities to assess battle damage.

- **Defense Security Assistance Agency.** The Defense Security Assistance Agency (DSAA), under the authority, direction, and control of the Assistant Secretary of Defense (International Security Affairs), serves as the DoD focal point and clearinghouse for the development and implementation of security assistance plans and programs, monitoring major weapon sales and technology transfer issues, budgetary and financial arrangements, legislative initiatives and activities, and policy and other security assistance matters through the analysis, coordination, decision, and implementation process. The DSAA directs and supervises the organization, functions, training, administrative support, and staffing of DoD elements in foreign countries responsible for managing security assistance programs and supports the development of cooperative programs with industrialized nations. To accomplish its mission, the DSAA shall develop and manage the security assistance program so as to gain maximum benefit for the foreign policy and national security of the United States.
- **National Imagery and Mapping Agency.** The National Imagery and Mapping Agency (NIMA) is a Combat Support Agency of the Department of Defense under the authority, direction, and control of the Secretary of Defense and the overall supervision of the Assistant Secretary of Defense for Command, Control, Communications, and Intelligence (ASD(C3I)). The mission of the NIMA is to provide timely, relevant, and accurate imagery, imagery intelligence, and geospatial information in support of the national security objectives of the United States. The NIMA carries out this responsibility by advising the Secretary and Deputy Secretary of Defense, the ASD(C3I), the Chairman of the Joint Chiefs of Staff, the Combatant Commanders, and, for national intelligence purposes, the Director of Central Intelligence and other Federal Government officials, on imagery, imagery intelligence, and geospatial information; and by supporting the imagery, imagery intelligence, and geospatial requirements of the Departments and Agencies of the Federal Government, to the extent provided by law.

NIMA provides timely, relevant, and accurate imagery, imagery intelligence, and geospatial information in support of national security objectives. NIMA guarantees the information edge-ready access to the world's imagery, imagery intelligence, and geospatial information. Part of NIMA's professional development college, the Defense Mapping School provides instruction in preparation and use of geospatial information.

- **National Security Agency.** The National Security Agency/Central Security Service (NSA/CSS), is a Combat Support Agency of the Department of Defense (DoD) under the authority, direction, and control of the Secretary of Defense, and is responsible for centralized coordination, direction, and performance of highly specialized intelligence functions in support of U.S. Government activities. The NSA carries out the responsibilities of the Secretary of Defense to serve as Executive Agency for U.S. Government signals intelligence,

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communications security, computer security, and operations security training activities. The Central Security Service provides the Military Services a unified cryptologic organization within the Department of Defense designed to assure proper control of the planning, programming, budgeting, and expenditure of resources for cryptologic activities.

- **On-Site Inspection Agency.** The United States On-Site Inspection Agency (OSIA), formed in 1988, under the authority, direction, and control of the Assistant to the Secretary of Defense (Nuclear and Biological and Chemical Defense Programs (NCB)), is responsible for managing and coordinating on-site inspections used to collect information for monitoring the Intermediate-Range Nuclear Forces Treaty; the Threshold Test Ban Treaty; the Vienna Document of 1990; and, planning for the Strategic Arms Reduction Treaty, Peaceful Nuclear Explosion Treaty, and Chemical Weapons agreements.

The Agency's work is not limited to supporting the treaty verification process. The U.S. government also relies upon OSIA's inspection experiences and linguistic capabilities to perform a variety of other missions. To date, these include supporting the United Nations Special Commission on Iraq, providing humanitarian assistance through Operation Provide Hope, leading and supporting the Defense Treaty Inspection Readiness Program, supporting U.S. Forces Korea, assisting implementation of the Cooperative Threat Reduction program and working towards peace by supporting the multilateral inspection activities in Bosnia and Herzegovina under the Dayton Peace Accords.

DoD Field Activities. The DoD Field Activities are established by the Secretary of Defense, under the provisions of Title 10, United States Code, to perform selected support and service functions of a more limited scope than Defense Agencies.

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- **American Forces Information Service.** The American Forces Information Service, under the authority, direction, and control of the Assistant to the Secretary of Defense (Public Affairs): (1) advises and acts for the ASD(PA) in managing DoD internal information programs; (2) develops policies, guidelines, and standards for the management of DoD visual information activities and programs; (3) develops policies, guidelines, and standards for the management of Armed Forces Radio and Television Service (AFRTS) outlets and activities; and (4) provides joint-interest print, radio, film, and television materials for use in the internal information programs of the Military Departments and other DoD organizations.

The AFRTS provides radio and television programs to 1 million service members and their families overseas, to include Navy members aboard ships at sea. The AFRTS's programming hub is located at its Broadcast Center at March Air Force Base, Calif., which obtains radio and television programs from commercial networks and syndicators - or specially produces them - and sends them out worldwide. The AFRTS has outlets in about 140 countries. Outlets range in size and capability from large radio and TV facilities like those found in U.S. metropolitan areas - to small, unmanned repeater stations - to simply video monitors and videocassette players.

- **Defense Medical Program Activity.** The Defense Medical Programs Activity, under the authority, direction, and control of the Assistant Secretary of Defense (Health Affairs), is designed to help support the resources planning, programming, budgeting, execution, program review and evaluation of the Defense Unified Medical Program; and the information systems development and management, facility planning, programming, budgeting, and review requirements of the Military Health Services System.
- **Defense Prisoner of War/Missing in Action Office.** The Defense Prisoner of War/Missing in Action Office under the authority, direction, and control of the Assistant Secretary of Defense (International Security Affairs), provides centralized management of prisoner of war/missing in action (POW/MIA) affairs within the Department of Defense.
- **Defense Technology Security Administration.** The Defense Technology Security Administration, under the authority, direction, and control of the Assistant Secretary of Defense (International Security Policy), serves as the focal point within DoD for administering the DoD Technology Security Program. It is responsible for reviewing the international transfer of defense-related technology, goods, and services consistent with U.S. foreign policy and national security objectives.
- **Defense Civilian Personnel Management Service.** The Department of Defense Civilian Personnel Management Service, under the authority, direction, and control of the Assistant Secretary of Defense (Force Management Policy), provides civilian personnel policy support, functional information management, and centralized administration of common civilian personnel management services to the DoD Components and their activities.
- **DoD Education Activity.** The Department of Defense Education Activity, under the authority, direction, and control of the Assistant Secretary of Defense (Force Management Policy), serves as the principal staff advisor to the ASD(FMP) on all Defense education

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matters relative to overseas, domestic, and continuing adult and post- secondary education activities and programs.

- **Tricare Support Office.** The Tricare Support Office, under the authority, direction, and control of the Assistant Secretary of Defense (Health Affairs), administers civilian health and medical programs for retirees, and for spouses and children of active duty, retired, and deceased members of the Uniformed Services. The Uniformed Services include the Army, Navy, Air Force, Marine Corps, Coast Guard, and the Commissioned Corps of the National Oceanographic and Atmospheric Administration and the Public Health Service.
- **Office of Economic Adjustment.** The Office of Economic Adjustment, under the authority, direction, and control of the Deputy Under Secretary of Defense (Industrial Affairs and Installations (DUSD (IA&I))), serves as the principal staff advisor to the DUSD(IA&I) on economic adjustment, joint land use studies, and intergovernmental coordination program matters.
- **Washington Headquarters Services.** The Washington Headquarters Services provides administrative and operational support to specified Department of Defense activities in the National Capital Region.

FINANCIAL PERFORMANCE MEASURES

Financial performance measures summarize significant indicators of financial results and financial condition and are included in each of the DoD reporting entity financial statements. The stand alone financial statements for DoD reporting activities identify and discuss material changes and significant trends in financial results or condition for those funds and appropriations they receive.

The emerging requirements of Public Law 103-62, “The Government Performance and Results Act of 1993,” scheduled for implementation in FY 1999, will complement and expand the framework for linking financial and program performance established by the CFO Act.

FINANCIAL MANAGEMENT REFORM

During the last four years, improvement of the Department’s financial management has been a top priority. DoD leaders have undertaken the most comprehensive reform of financial management systems and practices in DoD history. Progress has been substantial, but more work still lies ahead.

The Department’s financial management reforms aim to streamline and redesign DoD financial processes and organizations in order to make them optimally effective and to cut costs. Reforms also seek to ensure that DoD financial management fulfills the needs of its leaders, satisfies statutory requirements, minimizes the potential for fraud, and provides superior customer service.

PROBLEMS AND CAUSES

Since its formation in 1947, DoD has had a decentralized mode of operation. A benefit of that has been high effectiveness and initiative within the military departments and the other organizational components of the Department. Until recent reforms, however, a drawback has been that these DoD components managed their own budget, finance, and accounting systems. As a result, they developed their own processes and business practices, geared to their specific mission without the requirement for compatibility with other DoD operations. But as defense missions became more complex and DoD organizations were required to interact more frequently, system incompatibility and lack of standardization took a toll. Rather than redesigning its organization or standardizing its multitude of systems, the Department developed increasingly complex business practices to link its systems.

Such complexity left the DoD's financial systems prone to error or to demands that could not be met with the systems, personnel, or time available. Moreover, there was an inherent inefficiency in having scores of incompatible organizations performing virtually identical functions on dozens of different financial systems. This section highlights reforms to solve these and other DoD financial management problems.

REFORM AND CONSOLIDATION OF FINANCIAL MANAGEMENT OPERATIONS

The Defense Finance and Accounting Service and the Consolidation of Financial Management Operations

Since its activation in January 1991, the Defense Finance and Accounting Service (DFAS) has been the Department's pivotal agent for financial management reform and consolidation. The DFAS processes a monthly average of nearly 9 million payments to DoD personnel; 2 million commercial invoices; 675,000 travel vouchers/settlements; 550,000 savings bond issuances; and 340,000 transportation bills of lading, with total monthly disbursements averaging \$22.2 billion. Through consolidation and process improvements, DFAS has generated savings in operating costs totaling nearly \$1 billion through the end of FY 1997.

Before consolidation began in FY 1994, the Department's financial management operations were conducted at over 330 field installations or sites. By moving to five DFAS Centers and no more than 21 operating locations, the Department has been able to eliminate redundancy and unnecessary management layers, facilitate standardization, improve and speed up operations and service to customers, increase productivity, and enhance financial management support to DoD decision makers. The Defense Reform Initiative calls for DFAS to make further consolidations.

Expanding Competition to Improve Services and Reduce Cost

DoD financial managers are participating in the Administration's effort to use competition within the government and with the private sector to improve support services and save money. For example, during FY 1996 the Department consolidated debt and claims management activities

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into one location, saving \$8.5 million annually. A facilities, logistics, and administration study, completed in May 1997, will save \$4 million annually. Another A-76 study (on Defense Commissary Vendor Payments) was completed in October 1997, with the government's Most Efficient Organization (MEO) being selected over the private sector vendor. The MEO will be implemented by March 1998, with projected savings expected to exceed \$10.1 million annually. The Department has active A-76 competition studies in the areas of commissary accounting, DoD transportation accounting, and DoD depot maintenance accounting. Additionally, the Defense Reform Initiative directed DFAS to initiate A-76 studies in the areas of civilian pay and military retiree and annuitant pay.

Consolidation of Finance Systems

There are two types of DoD financial management systems--finance and accounting. Finance systems process payments to DoD personnel, retirees, annuitants, and private contractors. Accounting systems record, accumulate, report, and analyze financial activity. The Department has 156 finance and accounting systems, down from 324 in 1991 when DFAS was established. The number of DoD finance systems has been reduced from 127 in 1991 to 34, with a resulting annual savings of \$77 million. The long-term goal is to cut the number of DoD finance systems to nine.

The consolidations of finance systems have been completed for retiree and annuitant payments and debt management. The Department's ongoing consolidation of other finance systems includes:

- **Defense Civilian Pay System (DCPS).** As of September 30, 1997, approximately 703,000 civilian payroll accounts had been transferred to DCPS. This represents an elimination of 25 systems and the closing of 348 decentralized payroll offices. By mid-1998, all DoD civilian employees will be paid by DCPS from just three locations.
- **Defense Joint Military Pay System (DJMS) and the Marine Corps Total Force System (MCTFS).** Today there are five military pay systems, with 78 percent of military members being paid by DJMS and MCTFS. By the end of FY 2001, DJMS will be fully implemented and all service members will be paid by either DJMS or MCTFS, eliminating an original 22 pay systems.
- **Defense Procurement Payment Systems (DPPS).** DPPS is currently being developed as a standardized DoD contract and vendor payment system. It will replace the nine current vendor pay systems, as well as the Mechanization of Contract Administration System. Similarly, a standard disbursement system will be selected and improved to replace the current seven systems.

Consolidation of Accounting Systems

The Department has reduced the number of accounting systems from 197 in FY 1991 to 122 in FY 1997. Simultaneously, DoD has been improving the remaining systems to make them compliant with generally accepted accounting principles and capable of producing auditable

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information as required by the Chief Financial Officer's Act of 1990, as amended. By FY 2003, DoD will reduce the number of accounting systems to no more than 23.

STRENGTHENING INTERNAL CONTROLS

Eliminating Problem Disbursements

A so-called problem disbursement occurs when an expenditure has not been reconciled with official accounting records. DoD problem disbursements have been reduced from \$34.3 billion to \$9.2 billion in less than four years.

Although DoD's problem disbursements have been a serious issue, there is no basis for concluding that the expenditures involved were improper. Each expenditure was made only after a Department official confirmed receipt of the subject goods or services and ensured that the payment was made in accordance with a valid contract. That notwithstanding, DoD has an extensive business process reengineering effort under way to improve its disbursement process. Prevalidation, the procedure of matching a disbursement to an obligation before (rather than after) a payment is made, has helped to reduce problem disbursements. Thresholds for applying prevalidation have been established at each DFAS center. To eliminate problem disbursements, the DoD plan is to:

- Gradually lower the prevalidation threshold until all payments are prevalidated.
- Provide disbursement voucher information via the DoD Intranet for access and recording by accounting stations.
- Pilot test the matching of payments and accounting data from the current financial management systems using data warehouse techniques.
- Record all accounting events within a DFAS corporate database, providing immediate access to all entitlement, disbursing, and accounting stations.

Contract overpayments are never acceptable, but they occasionally occur. In FY 1993, overpayments on major weapons systems contracts were \$592 million; by FY 1997, they had been reduced to \$113 million. Recovered funds from overpayments are the result of both solicited and unsolicited actions. Solicited actions are the result of audits and unsolicited are outright returns of funds by contractors. This reflects an accuracy rate of 99.8 percent.

Reforming the Contractor Payment Process

For the past 30 years, vouchers for goods and services purchased on government contracts had to be submitted to government contracting officers or the Defense Contract Audit Agency (DCAA) for approval before being sent to a government payment office. This process substantially delayed payments and required extensive effort by DCAA, government contracting officers, and contractors themselves. DCAA now allows direct submission of vouchers to DFAS by qualifying contractors. DCAA continues to provide oversight by periodic review of contractors and by

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examining a sampling of paid vouchers. This reform will save substantial auditor time, without putting accountability at risk. It also facilitates the transmission of contractor voucher payments using electronic data interchange, another source of savings and efficiency.

Computer Security and Fraud Detection

In June 1994, the Department established Operation Mongoose to detect fraud and reduce the vulnerability of DFAS's computer networks to intrusion. In FY 1997, Operation Mongoose identified over \$2.1 million in suspected fraud and overpayments.

Improved Financial Management Regulations and Procedures

The Department is continuing to standardize, improve, and simplify its financial management regulations and procedures. DoD financial management policy and procedures have been consolidated into a 15 volume DoD Financial Management Regulation (DoDFMR), which is expected to replace thousands of pages of separate DoD component regulations. Because the 15 volumes of the DoDFMR have been posted to a DoD web site, routine large-scale printings and distributions of the volumes have been terminated. The DoDFMR is now available only through the Internet, purchase of a CD-ROM, or paper copy.

Auditable Financial Statements

The Department is putting into place a financial management systems architecture that is capable of producing auditable financial statements. Additionally, DoD is upgrading the accuracy and timeliness of accounting data and integrating nonfinancial areas that affect financial and accounting data.

Reform Reporting and Valuation of Inventory

The Department is taking aggressive action to improve how it accounts for inventory, in accordance with the Office of Management and Budget Statement of Federal Financial Accounting Standard (SFFAS) Number 3. Conversion of inventories from DoD's standard (selling) price to the SFFAS requirement of latest acquisition cost, or historical cost, is currently being accomplished. Enhancing inventory management systems to capture proper accounting information will provide for automated inventory valuation, reliable costing of goods sold, and other elements that enable accurate assessment of net operating results.

Reporting and Valuation of Real and Personal Property

DoD's accounting systems were not designed to account for and report on the Department's real and personal property. Instead, financial information for these assets are obtained from various property data systems, which for the most part are not integrated with the accounting systems. To fix this, the Department is deploying a DoD-wide integrated property accounting system. This system will provide for financial control over real and personal property, replace over 150 separate property systems in DoD organizations, and provide necessary data to the accounting systems.

Adopting Best Business Practices

A critical aspect of the Department's financial management reform is to adapt and adopt successful business practices from the private and government sectors. The goal is to make DoD business practices simpler, more efficient, and less prone to error. This is being achieved by the revision of existing policies and procedures and the increased standardization, consolidation, capabilities, and compatibility of existing systems.

Improving the Exchange of Financial Information

DFAS is promoting the paperless exchange of financial information through:

- Electronic Document Management (EDM) and World Wide Web Applications One such application is electronic document access, which provides on-line real-time access to documents needed to perform bill paying and accounting operations. Contracts, government bills of lading, and payment vouchers can be stored in an electronic file cabinet and shared between DFAS activities. Another application avoids unnecessary printing of reports by converting them into electronic format for on-line analysis, reconciliation, and reporting. EDM technology is also being used to enhance the control and management of documents needed for bill paying operations, regardless of the format of the document. The EDM system uses imaging (for those documents that must continue to be received in a hard copy) and electronic foldering (for electronic formats), and automates and manages the business process. Together, these technologies will nearly eliminate paper from bill paying and accounting processes while at the same time making essential information available to those who need it in an electronic format.
- Electronic Funds Transfer (EFT). EFT is reducing the cost of disbursements. Over 91 percent of DoD civilian employees and military members paid by DoD have their pay directly deposited into their accounts. The Direct Deposit participation rate for travel payments has increased from 17 to 48 percent. In 1996, 57 percent of the DFAS major contract payments were by EFT. This accounted for 81 percent (\$54 billion) of total contract dollars disbursed, and this percentage is expected to continue increasing.
- Electronic Data Interchange (EDI). DFAS is using EDI to send remittance information directly to vendors and is currently working to receive and process EDI contracts and contract modifications into finance and accounting systems.

Electronic Audit Working Papers

Audit working papers are key components of audits performed by DCAA. They document DCAA's audit work and are sometimes shared with the customer as backups for audit reports. DCAA recently implemented an automated working paper process to make its audit services better, faster, and cheaper. DCAA acknowledges the audit request, performs the audit, and issues the audit report to the customer electronically. In addition, automating the process improves DCAA's internal communications for supervisory review and report issuance.

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As a result of this reform, DCAA can serve customers and obtain feedback on their services faster, helping to reduce the cycle time for negotiations. DCAA's new working paper process also supports DoD's efforts to improve the procurement process and will help achieve DoD's overall goal to become paperless by 2000.

Garnishment Operations

DFAS is continuing the reengineering of the processes by which the Department garnishes the pay of its civilian and military personnel for child support, alimony, commercial debt, and divisions of retired pay. DoD garnishment operations have been consolidated at DFAS Cleveland, which processes about 12,000 garnishment orders per month. Initial reengineering efforts have reduced staffing requirements significantly and are estimated to save \$19 million over a five-year period. Over the next year, DFAS plans to implement major improvements--most notably to integrate EDI and imaging technology, and an integrated garnishment system that will provide an electronic interface with the DFAS pay systems. The first interface with the Defense Civilian Pay System was successfully implemented in August 1997. The remaining interfaces are scheduled to be completed by December 1999.

Government-Wide Purchase Card Expansion

Since starting in 1989, the Department's participation in the government-wide purchase authorization card program has grown to include over 107,000 cardholders with purchases totaling \$2.2 billion for FY 1997. DoD's goal is that by FY 2000 the purchase card will be used for 90 percent of its micropurchases. Expanded use of the government-wide purchase card--together with other of the defense reform initiatives--will allow retail-level inventories to be reduced from \$14 billion in FY 1996 to \$10 billion in FY 2001.

The purchase card streamlines purchase approvals, reduces purchasing and accounting documentation, cuts costs, and speeds up vendor payments. It enables the Department to use bulk commitments and obligations in accounting for purchases, summary accounting for groups of purchases instead of detailed lines of accounting for each transaction, and an accelerated payment and invoice reconciliation process with the purchase card issuer.

DFAS processes about 10 million commercial invoices per year, over three-quarters of which are below the \$2,500 (micropurchases) threshold for the purchase card. Numerous initiatives are now being pursued to get more of these made with the purchase card. Using an accelerated invoice payment and reconciliation process will enable DFAS to make faster payments, virtually eliminating interest payments. Using summary accounting for groups of purchases will reduce the costs, time, and size of the work force needed to process invoices. The recipient of the benefits of these initiatives is the customer, who will receive procurement efficiencies and lower processing rates for services performed by DFAS.

Travel Reengineering

The Department continues to implement its simplification of the temporary duty travel process for all DoD personnel. Prior to this effort, regulations caused overhead costs to reach as high as 30 percent, compared to a private sector average of 5-10 percent. DoD changed counterproductive practices and designed a seamless, paperless, less costly travel system that supports DoD requirements and provides excellent customer service. The Department also supported passage of the Travel Reform and Savings Act to remove statutory barriers to better business practices. In September 1997, the Vice President's National Performance Review presented DoD's reform team with the Hammer Award in recognition of its efforts to streamline government processes.

New DoD travel policies include:

- The use of simplified entitlements that delegate to appropriate officials the authority to approve exceptions to standard arrangements.
- Expanded use of a government-sponsored, contractor-provided travel card to pay for all expenses related to official business travel (travel advances, airline tickets, taxis, lodging, meals, conference registration fees, and incidentals).
- The removal of the requirement to have travelers obtain paper statements of nonavailability for government lodging and messing.
- The increase from \$25 to \$75 for receipt for business expenses, except for lodging.
- The use of the facsimile machine or electronic record transfer to file the travel voucher for reimbursement processing.
- Expanded use of electronic funds transfer to reimburse travelers.

Before fully deploying its new Defense Travel System (DTS), the Department pilot tested these revised policies at 27 sites, representing each of the Services and several defense agencies. Results from the test show a 48 percent reduction in process steps, 56 percent reduction in process cost, 48 percent reduction in payment cycle time, and improvement in customer satisfaction of both travelers and their authorizing officials of close to 100 percent on many indicators.

Digital Signature

To achieve the goal of a paperless process, DoD leaders worked with the Departments of Commerce and Energy and the General Accounting Office to develop a software specification that creates a digital signature that is compliant with federal standards. The software specification enables the Department to move to paperless processes. Users will be allowed to sign documents electronically. This process will be tested in the DTS and eventually exported to other functional areas.

Standardization of Data

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In addition to consolidating finance and accounting systems, DoD is establishing the DFAS Corporate Information Infrastructure to support:

- Use of common data elements for the collection, storage, and retrieval of finance and accounting data.
- Use of common transactions.
- Movement of common transactions and data among systems.

Also supporting reform is an ambitious effort to standardize and share acquisition data. This effort will greatly improve the interactions between DoD procurement systems and the financial systems that process and account for payments of procurements.

Conclusion

The Department's financial management reforms in recent years have been successful and have laid a foundation for even greater improvement. Still ahead are several more years of transition, experimentation, reengineering, and modernization.

LIMITATION OF THE FINANCIAL STATEMENTS

- The financial statements have been prepared to report the financial position and results of operations for the entity, pursuant to the requirements of the CFO Act of 1990 and the Government Management Reform Act of 1994 (GMRA).
- While the statements have been prepared from the books and records of the entity, in accordance with the formats prescribed by the Office of Management and Budget (OMB), the statements are different from the financial statements used to monitor and control budgetary resources that are prepared from the same books and records.
- The statements should be read with the realization that they are for a Federal entity, that unfunded liabilities reported in the financial statements cannot be liquidated without the enactment of an appropriation, and that the payment of all liabilities other than for contracts can be abrogated by the sovereign entity.

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DEPARTMENT OF DEFENSE

***AGENCY-WIDE
FINANCIAL STATEMENTS***

PRINCIPAL STATEMENTS

PRINCIPAL STATEMENTS

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Consolidated Statements

Department of Defense
Statement of Financial Position
As of September 30, 1997
(Thousands)

ASSETS	<u>1997</u>	<u>1996</u>
1. Entity Assets:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Fund Balance with Treasury (Note 2)	\$169,287,308	\$184,244,796
(2) Investments, Net (Note 4)	140,856,719	132,776,006
(3) Accounts Receivable, Net (Note 5)	5,542,903	7,607,765
(4) Interest Receivable	4,258,395	4,202,116
(5) Advances and Prepayments	(1,530,399)	(704,752)
(6) Other Federal (Intragovernmental) (Note 6)	415,021	941,882
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Investments (Note 4)	0	297
(2) Accounts Receivable, Net (Note 5)	6,152,092	7,475,327
(3) Credit Program Receivables/ Related Foreclosed Property, Net (Note 7)	0	0
(4) Interest Receivable, Net	543	28,296
(5) Advances and Prepayments	16,130,693	8,654,608
(6) Other Non-Federal (Governmental) (Note 6)	1,354,377	37,560
c. Cash and Other Monetary Assets (Note 3)	27,839	113,973
d. Inventory, Net (Note 8)	61,289,500	66,029,264
e. Work in Process (Note 9)	2,411,333	2,531,554
f. Operating Materials/Supplies, Net (Note 10)	1,475,518	1,546,695
g. Stockpile Materials, Net (Note 11)	3,320,087	3,696,491
h. Seized Property (Note 12)	0	0
i. Forfeited Property, Net (Note 13)	0	0
j. Goods Held Under Price Support and Stabilization Programs, Net (Note 14)	0	0
k. Property, Plant and Equipment, Net (Note 15)	777,032,816	772,884,804
l. War Reserves	140,057,700	111,529,701
m. Other Entity Assets	919,269	7,113,685
n. Total Entity Assets	<u>\$1,329,001,714</u>	<u>\$1,310,710,068</u>
2. Non-Entity Assets:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Fund Balance with Treasury (Note 2)	\$165,983	(\$583,053)
(2) Accounts Receivable, Net (Note 5)	30,768	118,917
(3) Interest Receivable, Net	0	0
(4) Other (Note 6)	393,512	375,620

The accompanying notes are an integral part of these statements

Consolidated Statements

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ASSETS, Continued	<u>1997</u>	<u>1996</u>
2. Non-Entity Assets:		
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Receivable, Net (Note 5)	\$98,961	\$539,546
(2) Interest Receivable, Net	14,906	52,674
(3) Other (Note 6)	48,249	7,851
c. Cash and Other Monetary Assets (Note 3)	439,071	277,305
d. Other Non-Entity Assets	65,966	38,362
e. Total Non-Entity Assets	<u>\$1,257,416</u>	<u>\$827,222</u>
3. Total Assets	<u>\$1,330,259,130</u>	<u>\$1,311,537,290</u>
LIABILITIES		
4. Liabilities Covered by Budgetary Resources:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Accounts Payable	\$1,073,307	\$5,838,587
(2) Interest Payable	0	0
(3) Debt (Note 16)	1,308,077	1,382,763
(4) Other Federal (Intragovernmental) Liabilities (Note 17)	4,304,819	6,300,591
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Payable	14,973,184	15,132,961
(2) Accrued Payroll and Benefits		
(a) Salaries and Wages	5,483,640	4,592,069
(b) Annual Accrued Leave	1,079,654	978,934
(c) Severance Pay and Separation Allowance	792,548	751,198
(3) Interest Payable	1	251
(4) Liabilities for Loan Guarantees (Note 7)	0	0
(5) Lease Liabilities (Note 18)	0	3,622
(6) Pensions and Other Actuarial Liabilities (Note 19)	142,150,555	132,787,893
(7) Other Non-Federal (Governmental) Liabilities (Note 17)	4,012,618	3,970,143
c. Total Liabilities Covered by Budgetary Resources:	<u>\$175,178,403</u>	<u>\$171,739,012</u>

The accompanying notes are an integral part of these statements

Consolidated Statements

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LIABILITIES, Continued	<u>1997</u>	<u>1996</u>
5. Liabilities Not Covered by Budgetary Resources:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Accounts Payable	\$210,920	(\$48,917)
(2) Debt (Note 16)	0	0
(3) Other Federal (Intragovernmental) Liabilities (Note 17)	7,103,420	770,760
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Payable	2,301,880	5,254
(2) Debt (Note 16)	0	0
(3) Lease Liabilities (Note 18)	124,273	0
(4) Pensions and Other Actuarial Liabilities (Note 19)	726,352,927	421,930,934
(5) Other Non-Federal (Governmental) Liabilities (Note 17)	37,555,670	24,239,647
c. Total Liabilities Not Covered by Budgetary Resources	<u>\$773,649,090</u>	<u>\$446,897,678</u>
6. Total Liabilities	<u>\$948,827,493</u>	<u>\$618,636,690</u>
NET POSITION (Note 20)		
7. Balances:		
a. Unexpended Appropriations	\$158,944,492	\$171,465,546
b. Invested Capital	1,038,951,433	1,005,978,667
c. Cumulative Results of Operations	(42,090,233)	(31,026,936)
d. Other	(724,965)	(6,618,999)
e. Future Funding Requirements	(773,649,090)	(446,897,678)
f. Total Net Position	<u>\$381,431,637</u>	<u>\$692,900,600</u>
8. Total Liabilities and Net Position	<u>\$1,330,259,130</u>	<u>\$1,311,537,290</u>

The accompanying notes are an integral part of these statements

Consolidated Statements

Department of Defense

Statement of Operations and Changes in Net Position

For the Period Ended September 30, 1997

(Thousands)

	<u>1997</u>	<u>1996</u>
REVENUES AND FINANCING SOURCES		
1. Appropriated Capital Used	\$226,175,336	\$212,942,585
2. Revenues from Sales of Goods and Services		
a. To the Public	8,474,679	8,556,044
b. Intragovernmental	23,100,003	44,997,100
3. Interest and Penalties, Non-Federal	4,689	9,564
4. Interest, Federal	167,409	11,385,085
5. Taxes (Note 21)	0	0
6. Other Revenues and Financing Sources (Note 22)	13,337,939	24,657,414
7. Less: Taxes and Receipts Transferred to the Treasury or Other Agencies	(890,267)	(651,633)
8. Total Revenues and Financing Sources	<u>\$270,369,788</u>	<u>\$301,896,159</u>
EXPENSES		
9. Program or Operating Expenses (Note 23)	\$239,224,197	\$257,418,065
10. Cost of Goods Sold (Note 24)		
a. To the Public	8,127,453	7,730,102
b. Intragovernmental	19,642,292	31,266,410
11. Depreciation and Amortization	2,088,022	1,558,173
12. Bad Debts and Writeoffs	124,181	122,485
13. Interest		
a. Federal Financing Bank/Treasury Borrowing	86,770	0
b. Federal Securities	0	0
c. Other	34,624	6,509
14. Other Expenses (Note 25)	25,514,154	23,024,177
15. Total Expenses	<u>\$294,841,693</u>	<u>\$321,125,921</u>
16. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses Before Extraordinary Items	(24,471,905)	(19,229,762)
17. Plus (Minus) Extraordinary Items (Note 26)	(595,331)	428,252
18. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	<u>(\$25,067,236)</u>	<u>(\$18,801,510)</u>

The accompanying notes are an integral part of these statements

Consolidated Statements

Department of Defense

Statement of Operations and Changes in Net Position

For the Period Ended September 30, 1997

(Thousands)

	<u>1997</u>	<u>1996</u>
EXPENSES, Continued		
19. Net Position, Beginning Balance, as Previously Stated	\$692,900,600	\$726,220,581
20. Adjustments (Note 27)	<u>(312,801,322)</u>	<u>(9,001,015)</u>
21. Net Position, Beginning Balance, as Restated	\$380,099,278	\$717,219,566
22. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	(25,067,236)	(18,801,510)
23. Plus (Minus) Non Operating Changes (Note 28)	<u>26,399,595</u>	<u>(5,517,456)</u>
24. Net Position, Ending Balance	<u><u>\$381,431,637</u></u>	<u><u>\$692,900,600</u></u>

The accompanying notes are an integral part of these statements

The accompanying notes are an integral part of these statements

DEPARTMENT OF DEFENSE

***AGENCY-WIDE
FINANCIAL STATEMENTS***

***FOOTNOTES
TO THE
PRINCIPAL STATEMENTS***

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NOTES TO THE DEPARTMENT OF DEFENSE PRINCIPAL STATEMENTS

Note 1. Summary of Significant Accounting Policies:

A. Basis of Presentation:

These financial statements have been prepared to report the financial position and results of operations of the Department of Defense, as required by the Chief Financial Officers (CFO) Act, and other appropriate legislation. They have been prepared from the books and records of DoD Agencies in accordance with DoD guidance on the form and content of financial statements as adopted from Office of Management and Budget (OMB) Bulletin No. 94-01, "Form and Content of Agency Financial Statements," and subsequent issues. Consequently, these statements are different from the financial reports, also prepared by the DoD Agencies pursuant to OMB directives, that are used to monitor and control DoD's use of budgetary resources.

These financial statements are prepared from a consolidation of accounting information reported from multiple field level and departmental level accounting systems. DoD Agency general ledger account balances have been verified to the year-end departmental budget execution reports. Other methods, to include feeder reports, must be used to verify the accuracy of general ledger balances in those instances where budget execution and expenditure reports don't contain the proprietary information - for example, "Government Furnished Property." Budget execution reports are prepared from field level reports that are certified for accuracy and completeness by the individual responsible for the allotment of funds.

B. Reporting Entity:

Fiscal year 1997 represents the second year the Department of Defense prepared and has audited, an agency-wide set of financial statements. The reporting entities within the Department have been changed to facilitate this new reporting requirement. Auditors will be issuing reports on the financial statements of the following reporting entities: 1) Army; 2) Navy; 3) Air Force; 4) Army Working Capital Fund; 5) Navy Working Capital Fund; 6) Air Force Working Capital Fund; 7) Defense Logistics Agency Working Capital Fund; 8) Defense Finance and Accounting Service Working Capital Fund; 9) Defense Commissary Agency Working Capital Fund; 10) Joint Logistics Systems Center Working Capital Fund; 11) U.S. Transportation Command Working Capital Fund; 12) Defense Information Systems Agency Working Capital Fund; 13) DoD Military Retirement Trust Fund; 14) National Defense Stockpile Transaction Fund; and 15) U.S. Army Corps of Engineers (Civil Works). In addition to the preceding fifteen entities, the reporting entities "Working Capital Fund Component Adjustments" and "Other Defense Organizations" have been added to incorporate all remaining DoD agencies.

Auditors will not issue a separate report on the "Other Defense Organizations" but will be issuing reports on selected agencies within this reporting entity group. Consequently, since all of

FOOTNOTES TO THE PRINCIPAL STATEMENTS

the DoD reporting entities comprising the DoD Consolidated Report have separate audit reports - with the exception of “Working Capital Fund Component Adjustments” and “Other Defense Organizations” - readers of this consolidated report may refer back to the underlying CFO Report for more specific financial statement presentations and disclosures. These consolidated statements account for all funds for which the Department of Defense is responsible except that information relative to classified assets, programs, and operations has been excluded from the statements or otherwise aggregated and reported in such a manner that the information is no longer classified.

The accounts used to prepare the principal statements are classified as entity/non-entity and by type of fund. Entity accounts consist of resources that the agency has the authority to decide how to use, or where management is legally obligated to use funds to meet entity obligations. Non-entity accounts are assets that are held by an entity but are not available for use in operations.

C. Budgets and Budgetary Accounting:

Funds are distributed by appropriation directors to the entities responsible for accomplishing the diverse missions for which the Department of Defense is responsible. As missions are performed, reporting entities record obligations and disbursements against the applicable appropriations. The DoD appropriations are divided into the general, revolving, trust, special and deposit funds. These accounts are used to fund and report how the resources have been used in the course of executing the DoD’s missions.

General funds contain the bulk of Congressional appropriations, including personnel, operations, research and development, investment, and construction accounts.

Revolving funds receive their initial working capital through an appropriation or a transfer of resources from existing appropriations of funds and use those capital resources to finance the initial cost of products and services. Financial resources to replenish the initial working capital and to permit continuing operations is generated by the acceptance of customer orders.

Trust funds are used to record the receipt of funds held in trust for the government.

Special funds are comprised of receipt and expenditure accounts that can only be used in accordance with specific provisions of law.

Deposit funds generally are used to hold assets that are awaiting legal determination or for which the DoD acts as agent or custodian. These accounts may also be used for unidentified remittances.

FOOTNOTES TO THE PRINCIPAL STATEMENTS

D. Basis of Accounting:

Transactions are generally recorded on an accrual basis and a budgetary basis. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability has been incurred, without regard to the actual receipt or payment of cash. Budgetary accounting is accomplished through unique general ledger accounts which facilitate DoD's compliance in meeting both legal and internal control requirements associated with the use of federal funds. All known intrafund balances have been eliminated.

E. Revenues and Other Financing Sources:

The DoD receives the majority of funding required to support its programs and missions through Congressional appropriations. A financing source, "Appropriated Capital Used," is recognized each fiscal year to the extent that appropriated funds have been consumed. Purchases of capital items and accruals of unfunded liabilities are excluded from the "Appropriated Capital Used" account.

Appropriations are, when authorized, supplemented by revenues generated by sales of goods or services through a reimbursable order process. Revenue is recognized to the extent the revenue is payable to the DoD from other federal agencies and the public as a result of costs incurred or services performed on their behalf. Revenue is recognized when earned under the reimbursable process.

Other revenues and financing sources include donated revenue and inventory and other gains. Donations are recognized as a financial source upon acceptance of the donated asset. Revenue is recorded for the value of the increase to the asset accounts. Certain expenses, such as annual and military leave earned but not taken, are not funded when accrued. Such expenses are financed in the period in which payment is required. Therefore, an amount due from future financing sources (appropriations to be provided) is recognized as an offset to equity in the consolidated statement of financial position.

F. Accounting for Intragovernmental Activities:

The DoD, as an agency of the Federal Government, interacts with and is dependent upon the financial activities of the Federal Government as a whole. However, it should be noted that these financial statements do not reflect the results of all financial decisions applicable to the Department as though the agency were a stand alone entity.

The DoD's proportionate share of public debt and related expenses of the federal government are not included in these financial statements. Debt incurred by the federal government and the related interest are not apportioned to federal agencies.

These financial statements do not reflect any portion of the public debt or interest thereon, nor do the statements reflect the source of public financing (e.g. debt issuance, tax revenues).

FOOTNOTES TO THE PRINCIPAL STATEMENTS

The related interest costs incurred in the construction of DoD facilities are also not capitalized since Treasury does not allocate interest costs to the benefiting agencies.

The DoD's permanent civilian employees and military personnel are covered under the Civil Service Retirement System (CSRS), Federal Employees Retirement System (FERS) and the Military Retirement System (MRS) plans.

CSRS - DoD makes matching contributions equal to 7 percent of civilian pay.

FERS - DoD contributes to FERS, Social Security (SS) and Thrift Savings Plan for civilian employees hired after December 31, 1983, or CSRS employees that elected to be covered under FERS.

MRS - DoD contributes to the Military Retirement Trust Fund for Active Component and Reserve/National Guard members.

The DoD also contributes to the FERS Thrift Savings Plan on behalf of its participating employees. The following contributions listed below were made to the retirement plans and FERS Thrift Savings Plan (TSP) for the Military Departments.

Retirement Contributions (Thousands)

CSRS	\$1,599,840
FERS	1,847,098
MRS	9,989,102
Social Security	<u>2,748,367</u>
Total	<u><u>\$16,184,407</u></u>
 TSP	 <u><u>\$511,478</u></u>

The DoD funds a portion of the pension benefits under these retirement plans. No amounts relating to the civilian workforce are reported as assets or liabilities in the financial statements because the funds are maintained and reported by the Office of Personnel Management for CSRS and FERS. However, assets and liabilities relating to the military workforce are included in these statements through reporting by the Military Retirement Trust Fund.

FOOTNOTES TO THE PRINCIPAL STATEMENTS

G. Funds with the U.S. Treasury and Cash:

The DoD's funding resources are maintained in Treasury receipt and expenditure accounts. The account balance with Treasury represents the aggregate of all DoD appropriations. The DoD is an agent for the Department of the Treasury for cash on hand.

Fund Balance With Treasury is adjusted for the amount of undistributed disbursements and collections reported in the departmental expenditure systems. A corresponding adjustment is also processed to both accounts payable and accounts receivable respectively. These adjustments represent DoD's in-float (undistributed) disbursements/collections for transactions that have been reported by a disbursing station but not recorded by the appropriate accountable station. See Note 2, "Fund Balance with Treasury."

Cash in the accounts of DoD officials was reported in the financial statements as "Cash and Other Monetary Assets." Other cash reported included imprest fund and undeposited collections. DoD disbursing officers also maintain small on hand balances of foreign currencies when acting as an agent for the Treasury Department in overseas locations. These foreign currency balances are reported at the U.S. Dollar equivalent using the exchange rate in effect on the last day of the reporting period. See Note 3, "Cash, Foreign Currency, and Other Monetary Assets."

H. Foreign Currency:

The Department conducts a significant portion of its operations overseas. Gains and losses from foreign currency transactions for four general fund appropriations (operation and maintenance, military construction, family housing operation and maintenance, and family housing construction) are recognized and reported in the statement of operations. Similar gains and losses from other appropriations are not recognized in the Statement of Operations and Changes in Net Position. They are absorbed by budgetary transactions in which obligations are increased or decreased to reflect foreign currency fluctuations. Gains and losses from foreign currency transactions are computed as the variance between the current exchange rate at the date of payment and a budget rate established at the beginning of the fiscal year.

I. Accounts Receivable, Net:

As presented in the Statement of Financial Position, accounts receivable includes accounts, claims, and refunds receivable from other entities. Allowances for uncollectible accounts are based on an analysis of collection experience by fund type. Accounts Receivable that were established under accounts that have been canceled are included in the Department's financial statements where material. See Note 5, "Accounts Receivable, Net."

FOOTNOTES TO THE PRINCIPAL STATEMENTS

J. Loans Receivable:

Loans are accounted for as receivables after funds have been disbursed. For loans obligated prior to October 1, 1991, loan principal, interest, and penalties receivable are reduced by an allowance for estimated uncollectible amounts. The allowance is estimated based on past experience, present market conditions, and an analysis of outstanding balances. For loans obligated on or after October 1, 1991, the loans receivable are reduced by an allowance equal to the present value of the subsidy costs (due to the interest rate differential between the loans and U.S. Treasury borrowing, the estimated delinquencies and defaults net of recoveries, the offset from fees, and other estimated cash flows) associated with these loans.

K. Inventory, Net:

Currently, inventory is not recorded in the financial statements at the approximate historical cost in accordance with Statement of Federal Financial Accounting Standards Number 3, "Accounting for Inventory and Related Property." Instead, inventory is valued at a standard price (sale price) which includes the purchase price plus cost recovery factors (commonly called surcharges) necessary to recover operating costs and anticipated inflation rate changes. Gains or losses that result from valuation changes for inventory are not recognized and reported in the Statement of Operations. Such gains or losses are, however, reflected in the inventory asset valuation and related invested capital account in the Statement of Financial Position. See Note 8, "Inventory, Net."

L. Investments in U.S. Government Securities:

Investments in U.S. Government securities are reported at cost, net of unamortized premiums or discounts. Premiums or discounts are amortized into interest income over the term of the investment. The reporting entity's intent is to hold investments to maturity. Consequently, no provision is made for unrealized gains or losses on these securities because, in the majority of cases, they are held to maturity. See Note 4, "Investments, Net."

M. Property, Plant and Equipment, Net:

Property, Plant and Equipment (PP&E) represents the majority of total assets recorded on the Statement of Financial Position. Property accountability systems maintain the subsidiary records that support the general ledger balances as recorded in the financial accounting systems. Property book officers generally report PP&E end of period balances to the supporting accounting offices on a quarterly basis.

Valuations for weapons systems are to be based on historical procurement costs; however, most of the Department's tracking systems were not designed to record and perpetuate individual acquisition costs. Instead they assign standard costs to like items. Standard cost is normally the latest acquisition costs for specific Federal stock categories. Engineering and modification costs incurred subsequent to approval of the basic procurement contracts are valued at the contract

FOOTNOTES TO THE PRINCIPAL STATEMENTS

price of the engineering change order, value engineering, or modification which extends the life of the asset or capability of the system, and any other cost of materials or services not included in the contract cost.

Land and facilities are valued at cost. Buildings are capitalized when constructed or at the date of acquisition. Significant improvements to land and buildings normally are capitalized and depreciated over their remaining useful life. Audits of the Department's financial statements have shown that documentation to support the recorded acquisition cost of many older properties is no longer available. Obtaining appraisals for older property for which original acquisition records are no longer available is not cost effective, especially considering the number and age of many of the Department's real property assets. As a reasonable solution to this dilemma, recorded valuation of property is permitted for financial statement purposes in cases where original records supporting the property acquisition cost are no longer available. The DoD has requested that the Federal Accounting Standards Advisory Board endorse the above policy until such time as other applicable accounting standards are issued by the Board.

Routine maintenance and repair costs are expensed when incurred. Depreciation of property and equipment - required for revolving funds - is calculated on a straight line basis. Depreciation is not required for general fund equipment and buildings.

N. Prepaid and Deferred Charges:

Payments in advance of the receipt of goods and services are recorded as prepaid charges at the time of prepayment and reported as an asset on the Statement of Financial Position. Prepaid charges are recognized as expenditures and expenses when the related goods and services are received.

O. Leases:

As of September 30, 1997, the DoD was committed to numerous operating leases and rental agreements. Generally, these leases and agreements were for the rental of equipment, space, rights of way, and operating facilities. The DoD owns substantially all of the facilities and real property used in its domestic operations. Capital assets overseas are purchased with appropriated funds; however, title is retained by the host country.

Real property assets at overseas locations are classified as Capital Leases in accordance with DoD accounting policy. The policy requires that real property assets recorded under foreign government agreements permitting DoD occupancy of facilities - which require maintenance to be provided by DoD - be recorded as a capital lease. These "capital leases" do not fit the criteria of a typical capital lease due to the nature of the agreements with foreign governments and the fact that the assets have already been funded and disbursements have already been made out of appropriated funds. Consequently, no capital lease liability related to overseas real property assets is required for financial statement recognition. See also Note 18.

FOOTNOTES TO THE PRINCIPAL STATEMENTS

P. Contingencies:

At any given time, the Department may be a party to various legal and administrative actions, and claims brought against it. These relate primarily to tort claims resulting from aircraft, ship, and vehicle accidents, medical malpractice, property and environmental damages resulting from Departmental activities, and contract disputes. Most legal actions, other than contract claims, to which the department may be a named party are covered by the provisions of the federal tort claims act and the provisions of Title 10, United States Code, Chapter 163, governing military claims. Either because payments under these statutes are limited to amounts well below the threshold of materiality for claims payable from the Department's appropriations or because payments will be from the permanent, indefinite appropriation "Claims, Judgments, and Relief Acts" (the Judgment Fund), these legal actions should not materially affect the DoD's operations or financial position.

Q. Accrued Leave:

Civilian annual leave and military leave are accrued as earned and the accrued amounts are reduced as leave is taken. The balances for annual and military leave at the end of the fiscal year reflect current pay rates for the leave that is earned but not taken. Sick and other types of nonvested leave are expensed as taken. To the extent appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources

R. Equity:

Equity consists of invested capital, cumulative results of operation, and unexpended appropriations less unfunded liabilities. Invested capital, as presented in the Statement of Financial Position, represents the value of DoD's capital assets reported at average or actual cost. The portion of invested capital attributable to land and buildings represents their unde depreciated cost. Increases to invested capital are recorded when capital assets are acquired or constructed or when asset valuations increase as a result of increases in average costs. Decreases occur as capital assets are consumed in operations, or when average costs are decreased.

Cumulative results of operation represents the excess of revenues over expenses since fund inception, less refunds and returns to the U.S. Treasury for all funds other than the General fund. The excess of revenues over expenses for the General fund is reported in "Invested Capital." Unexpended appropriations represent amounts of authority which are unobligated and have not been rescinded or withdrawn, and amounts obligated but for which neither legal liabilities for payments have been incurred nor actual payments made.

S. Aircraft/Ship Crashes:

An operating loss of \$1.1 billion has been recognized in fiscal year 1997 for aircraft/ships which were either destroyed or damaged beyond repair due to aviation/navigation mishaps. No loss has been separately recognized for aircraft/ships that were damaged by accidents but were

FOOTNOTES TO THE PRINCIPAL STATEMENTS

repairable. Costs associated with repair of such aircraft/ships are recorded as operating expenses and generally funded from operation and maintenance appropriations.

T. Treaties for Use of Foreign Bases:

The DoD has the use of land, buildings, and other facilities which are located overseas and have been obtained through various international treaties and agreements negotiated by the Department of State. Generally, treaty terms allow the DoD continued use of these properties until the treaties expire. These assets are subject to loss in the event treaties are not renewed or other agreements are not reached which allow for the continued use by the DoD. In the event treaties or other agreements are terminated and use of foreign bases is no longer allowed, losses will be recorded for the value of any non-retrievable capital assets after negotiations between the United States and the host country have been concluded, to determine the amount due the United States for such capital investments. Operating expenses for overseas bases are included in the Statement of Operations.

U. Comparative Data:

This is the first year comparative data from FY 1996 has been presented on the DoD Agency-wide FY 97 Principal Statements. The Department's financial statements, however will continue to reflect restatements and reclassifications of prior year data due to the evolving nature of federal accounting standards and the development of new reporting financial systems.

V. Undelivered Orders:

DoD was obligated to pay for goods and services that have been ordered but not yet received. No liability for payment has been recognized in the financial statements because goods/services have yet to be delivered. As of September, 30, 1997, the following undelivered orders were reported:

<u>(Billions)</u>				
<u>Army</u>	<u>Air Force</u>	<u>Navy</u>	<u>Defense Agencies</u>	<u>Working Capital Fund</u>
\$28.1	\$34.8	\$45.0	\$25.9	\$15.1

FOOTNOTES TO THE PRINCIPAL STATEMENTS

Note 2. Fund Balances with Treasury (in thousands):

This account represents the aggregate of all Defense appropriations. The schedule below identifies, by fund type, the status of the resources maintained in the Treasury accounts. Amounts that have been restricted by Congress, OMB, Treasury or DoD have been separately identified. Special, Deposit, and Receipt account balances have been consolidated into “Other Fund Types.”

The aggregate fund balances of canceled and closed accounts that have been reopened for processing of accounting adjustments is \$17.7 billion. Balances related to the reopened canceled and closed accounts have no effect on these financial statements and have been disclosed for information purposes only.

<u>Closed/Reopened</u>			
<u>(Billions)</u>			
Army	Navy	Air Force	Other Defense Agencies
\$3.5	\$ 7.5	\$6.0	\$.7

A. Fund and Account Balances

	<u>Entity Assets</u>				<u>Total</u>
	<u>Trust Funds</u>	<u>Revolving Funds</u>	<u>Appropriated Funds</u>	<u>Other Fund Types</u>	
Unobligated Balance Available:					
Available	\$162,475	\$1,914,736	\$27,503,856	\$185,758	\$29,766,825
Restricted	14,836	68,341	3,951,432	0	4,034,609
Reserve For Anticipated Resources	0	(30,684)	0	0	(30,684)
Obligated (but not expensed)	706,152	2,321,111	129,886,039	171,160	133,084,462
Unfunded Contract Authority	0	\$0	(122,999)	0	(122,999)
Unused Borrowing Authority	0	\$0	0	0	0
WCF Fund Balance	<u>0</u>	<u>2,555,095</u>	<u>0</u>	<u>0</u>	<u>2,555,095</u>
Treasury Balance	<u>\$883,463</u>	<u>\$6,828,599</u>	<u>\$161,218,328</u>	<u>\$356,918</u>	<u>\$169,287,308</u>

FOOTNOTES TO THE PRINCIPAL STATEMENTS

B. Working Capital Fund Activities:

		<u>Entity Assets</u>	
	<u>Funds Collected</u>	<u>Funds Disbursed</u>	<u>Total</u>
Beginning Balance	\$14,703,273	\$10,515,949	\$4,187,324
Transfers of Cash to Others	(1,774,353)	992,746	(2,767,099)
Transfers of Cash from Others	708,454	1,887,895	2,596,349
Funds Collected	38,319,746	0	38,319,746
Funds Disbursed	<u>0</u>	<u>39,781,225</u>	<u>(39,781,225)</u>
Ending Balance	<u>\$51,957,120</u>	<u>\$53,177,815</u>	<u>\$2,555,095</u>

C. All Funds and Accounts:

		<u>Non-Entity Assets</u>	
	<u>Funds Collected</u>	<u>Funds Disbursed</u>	<u>Total</u>
Beginning Balance	(\$535,429)	\$152,961	(\$688,390)
Funds Collected	30,370,295	0	30,370,295
Funds Disbursed	<u>0</u>	<u>29,515,922</u>	<u>(29,515,922)</u>
Ending Balance	<u>\$29,834,866</u>	<u>\$29,668,883</u>	<u>\$165,983</u>

Note 3. Cash, Foreign Currency, and Other Monetary Assets (in thousands):

	<u>Entity Assets</u>	<u>Non-Entity Assets</u>
A. Cash	\$8,405	\$394,710
B. Foreign Currency	18,747	44,361
C. Other Monetary Assets:	<u>687</u>	<u>0</u>
D. Total Cash, Foreign Currency and Other Monetary Assets	<u>\$27,839</u>	<u>\$439,071</u>

Other Information: None

FOOTNOTES TO THE PRINCIPAL STATEMENTS

Note 4. Investments (in thousands):

	(1)	(2)	(3)	(4)	(5)
	Cost	Market Value	Amortization Method	Amortized Premium/ (Discount)	Investments Net
A. Intragovernmental Securities:					
(1) Marketable	\$1,833,840	\$0		\$0	\$1,833,840
(2) Non-Marketable Par Value	8,626	0		(16)	8,610
(3) Non-Marketable Market Based	145,479,816	157,029,135	EI*	(6,465,547)	139,014,269
Subtotal	<u>\$147,322,282</u>	<u>\$157,029,135</u>		<u>(\$6,465,563)</u>	<u>\$140,856,719</u>
B. Governmental Securities:					
(1) Commercial Paper	\$0	\$0		\$0	\$0
Subtotal	<u>\$0</u>	<u>\$0</u>		<u>\$0</u>	<u>\$0</u>
Total	<u>\$147,322,282</u>	<u>\$157,029,135</u>		<u>(\$6,465,563)</u>	<u>\$140,856,719</u>

* EI = Effective Interest

C. Other Information: The majority of the Department of Defense entity investments of \$ 145.5 billion are non-marketable/market based securities invested for the DoD Military Retirement Trust Fund. The Fund uses the same method that conforms to the prevailing practice in the financial community to determine amount amortized book value of investments currently held and the related Effective Interest (i.e. EI) yield on investments. These calculated yields match up with yields in published security tables of U. S. Treasury securities. Also there was approximately \$1.5 billion in invested marketable securities reported by Other Defense Organizations; with an additional \$8.6 million investments in non-marketable securities reported by the varied Military Departments Trust funds. These types of investments are normally recorded at cost, and if applicable, net of unamortized premiums or discounts. Premiums or discounts are amortized into interest income over the term of the investment. It is the intent of the Departments to hold their trust fund investments to maturity unless they are needed to finance claims or otherwise sustain operations. Therefore, no provisions are made for unrealized gains or losses on these securities.

FOOTNOTES TO THE PRINCIPAL STATEMENTS

Note 5. Accounts Receivable (in thousands):

	(1) Gross Amount Due	(2) Allowance For Estimated Uncollectibles	(3) Allowance Method Used	(4) Net Amount Due
A. Entity Receivables:				
Intragovernmental	\$11,039,443	\$16,589	See Item C	\$11,022,854 *
Governmental	6,357,659	200,105	See Item C	6,152,092
B. Non-Entity Receivables:				
Intragovernmental	\$30,768	\$0	N/A	\$30,768
Governmental	106,652	7,691	N/A	98,961

C. Other Information: Accounts Receivable represent all receivables due from federal and non-federal sources, net of allowance for estimated uncollectible accounts. The accounts receivable values include reimbursables and refund receivables such as out-of-service debts from former service members, contractor debt, and unused travel tickets.

*“Intragovernmental , Net” differs from line 1.a.(3) of the Statement of Financial Position by the amount of intra-DoD receivables that must be eliminated as shown in Note 29, Schedule C (Column A).

The method of calculating the allowance for estimated uncollectibles varies for each department and agency. For example, the allowance for uncollectible accounts, in some instances is based on an analysis of collection experience by fund type for current and noncurrent receivables. In another case, the departmental allowance for entity public receivables is computed each year, based on the average percent of write-offs to outstanding publicaccounts receivable for the last five years.

FOOTNOTES TO THE PRINCIPAL STATEMENTS

Note 6. Other Federal (Intragovernmental) and Non-Federal (Governmental) Assets (in thousands):

A. Other Entity Assets

1. Federal (Intragovernmental)

(a) Assets Returned for Credits	\$50,868
(b) Other	364,153
(c) _____	<u>0</u>
Total	<u><u>\$415,021</u></u>

2. Non-Federal (Governmental)

(a) FFB Loan Principal for APF-N Ships	\$1,164,026
(b) Other	<u>190,351</u>
Total	<u><u>\$1,354,377</u></u>

B. Other Information.

C. Other Non-entity Assets

1. Federal (Intragovernmental)

(a) IMRL Equipment	\$393,512
(b) _____	<u>0</u>
Total	<u><u>\$393,512</u></u>

2. Non-Federal (Governmental)

(a) Cash Advances to Contractors and Travel Advances	\$48,249
(b) Other	0
(c) _____	<u>0</u>
Total	<u><u>\$48,249</u></u>

D. Other Information: The majority of “Other Assets” was reported by the Working Capital Funds. The \$393,512 in Note 6.C.1(a) above reflects the FY 1997 gross value of Individual Material Readiness List (IMRL) Equipment for the Department of Navy. Naval Audit Service has questioned the inclusion of these items as Non-Entity Assets. USD(C) will be issuing clarifying guidance on the appropriate financial statement treatment for these items.

Note 7. Loans and Loan Guarantees, Non Federal Borrowers: Not applicable.

FOOTNOTES TO THE PRINCIPAL STATEMENTS

Note 8. Inventory, Net (in thousands):

	(1) Inventory Amount	(2) Allowance For Losses	(3) Inventory, Net	(4) Valuation Method
A. Inventory Categories:				
(1) Held for Current Sale	\$56,665,152	\$20,126,728	\$36,538,424	<u>a, c</u>
(2) Held in Reserve for Future Sale	1,818,463	0	1,818,463	<u></u>
(3) War Reserve Material	1,055,696	84,556	971,140	<u>a</u>
(4) Excess, Obsolete and Unserviceable	81,762	0	81,762	<u>d, e</u>
(5) Held for Repair	<u>23,892,552</u>	<u>2,012,841</u>	<u>21,879,711</u>	<u>a, e</u>
Total	<u><u>\$83,513,625</u></u>	<u><u>\$22,224,125</u></u>	<u><u>\$61,289,500</u></u>	

B. Restrictions on Inventory Use, Sale, or Disposition: Effective with the FY 1997 DoD Form and Content guidance, significant changes for reporting values on the Inventory, Net line on the Statement of Financial Position occurred. The FY 1996 financial statements included War Reserve Material as a component of Inventory, however, current guidance now requires that War Reserve Material be reported separately in the Statement of Financial Position. This change in classification accounts for the significant decrease of the FY 1997 Inventory line over last year's reported values. The \$1.1 billion reported as War Reserve Material is attributed to Working Capital Fund activities which continue to reflect these values as a component of Inventory.

C. Other Information: The majority of the Inventories held for Current Sale, \$55.1 billion is attributed to Working Capital Fund activities and includes an allowance account value of approximately \$20.1 billion. The residual values reported for this category by the other military departments are insignificant in amount.

FOOTNOTES TO THE PRINCIPAL STATEMENTS

Note 9. Work in Process (in thousands):

	(1) Work In Process Amount	(2) Valuation Method
A. Work in Process:		
1. In House	\$1,832,121	<u>a, c</u>
2. Contractor	530,943	<u></u>
3. Other Government Activities	48,269	<u></u>
4. Government Furnished Materials	<u>0</u>	<u></u>
Total	<u><u>\$2,411,333</u></u>	

B. Other Information: Work in Process represents labor, material, and overhead cost incurred during the period but not recognized as revenue. The Working Capital Fund activities reported \$2.4 billion dollars of the total balance.

Note 10. Operating Materials and Supplies (OM&S), Net (in thousands):

	(1) OM&S Amount	(2) Allowance For Losses	(3) OM&S, Net	(4) Valuation Method
A. OM&S Categories:				
(1) Held for Use	\$1,464,123	\$27,412	\$1,436,711	<u>c, e</u>
(2) Held in Reserve for Future Use	37,888	0	37,888	<u></u>
(3) Excess, Obsolete and Unserviceable	<u>919</u>	<u>0</u>	<u>919</u>	<u>e</u>
Total	<u><u>\$1,502,930</u></u>	<u><u>\$27,412</u></u>	<u><u>\$1,475,518</u></u>	

B. Other Information: Navy and Air Force Working Capital Funds have the majority of the OM&S assets. The valuations are primarily derived from use of the Latest Acquisition Cost and Weighted Average methods.

FOOTNOTES TO THE PRINCIPAL STATEMENTS

Note 11. Stockpile Materials Net (in thousands):

A. Stockpile Materials:

Stockpile materials are strategic and critical materials held due to statutory requirements for use in national defense, conservation or national emergencies. The Defense National Stockpile Transaction Fund is the only DoD agency involved in the reporting of this asset category.

	(1) Stockpile Materials <u>Amount</u>	(2) Allowance For Losses	(3) Stockpile Materials <u>Net</u>	(4) Valuation <u>Method</u>
A. Stockpile Materials:				
(1) Held for Sale *	\$1,404,419	\$0	\$1,404,419	<u>e</u>
(2) Held in Reserve for Future Sale	<u>1,915,668</u>	<u>0</u>	<u>1,915,668</u>	<u>e</u>
Total	<u><u>\$3,320,087</u></u>	<u><u>\$0</u></u>	<u><u>\$3,320,087</u></u>	

* Not held for sale in the ordinary course of business

B. Restrictions on stockpile materials and supplies: There are several restrictions on the use of the material. The quantities to be stockpiled are required to be sufficient to sustain the U.S. for a period of not less than three years during a national emergency (including a sustained conventional global war of indefinite duration). The required stockpile levels can only be changed by law through a Presidential proposal in the annual material plan submitted to the Congress.

Except for disposals made under the following situations, disposals cannot be made from the stockpile:

- Necessary upgrading, refining or processing
- Necessary rotation to prevent deterioration
- Determination as excess and of potential financial loss if not disposed
- By order of the President and/or authorized by law

C. Other Information: The estimated market value of the total inventory as of 30 September 1997 is \$5.4 billion. The financial statements report the recorded historical cost in accordance with the lower of cost or market principle.

Note 12. Seized Property: Not applicable

FOOTNOTES TO THE PRINCIPAL STATEMENTS

Note 13. Forfeited Property: Not applicable

Note 14. Goods Held Under Price Support and Stabilization Programs, Net: Not applicable

Note 15. Property, Plant and Equipment (in thousands):

	(1) Depreci- ation Method	(2) Service Life	(3) Acquisition Value	(4) Accumulated Depreciation	(5) Net Book Value
<u>Classes of Fixed Assets</u>					
A. Land	N/A		\$9,407,531	\$0	\$9,407,531
B. Structures, Facilities, & Leasehold Improvements	SL		143,724,260	12,295,187	131,429,073
C. Military Equipment	SL		589,289,357	1,560,629	587,728,728
D. ADP Software	SL		1,302,539	643,069	659,470
E. Equipment	SL		21,037,005	4,765,807	16,271,198
F. Assets Under Capital Lease	SL		4,811,873	956	4,810,917
G. Other	SL		130,317	25,175	105,142
H. Natural Resources	N/A		245,431	0	245,431
I. Construction-in-Progress	N/A		26,375,326	0	26,375,326
Total			<u>\$796,323,639</u>	<u>\$19,290,823</u>	<u>\$777,032,816</u>

*Keys:

Depreciation Methods

SL - Straight Line

DD - Double-Declining Balance

SY - Sum of the Years' Digits

IN - Interest (sinking fund)

PR - Production (activity or use method)

OT - Other (describe)

Range of Service Life

1-5 - 1 to 5 Years

6-10 - 6 to 10 Years

11-20 - 11 to 20 Years

>20 - Over 20 Years

Other Information: Approximately \$5.0 billion of the Capital Lease balance represents real property assets at overseas locations. These assets do not represent “true” capital leases and are classified as such to segregate overseas assets (which are subject to the agreements made with the host country) from those assets that are located within the jurisdiction of the United States. Since these overseas assets don’t fit the criteria for capital lease treatment, no offsetting lease liability has been established.

The increase in capitalization criteria from \$50,000 to \$100,000, as required by the Department of Defense Appropriation Act of 1996, resulted in “decapitalization” of various property, plant, and equipment assets. Consequently, items of property and equipment failing to meet the new \$100,000 capitalization threshold are no longer reflected in the Statement of Financial Position. Depreciation of property and equipment is calculated on the straight line basis.

FOOTNOTES TO THE PRINCIPAL STATEMENTS

Note 16. Debt (in thousands):

Liabilities Covered by Budgetary Resources	<u>Beginning Balance</u>	<u>New Borrowings</u>	<u>Repay- ments</u>	<u>Ending Balance</u>	<u>Re- financing</u>
A. Intragovernmental Debt:					
(1) Borrowing from the Treasury	\$0	\$0	\$0	\$0	\$0
(2) Borrowing from Fed- eral Financing Bank	1,382,763	0	74,686	1,308,077	0
(3) Borrowing from Other Federal Agencies	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Intragovern- mental Debt	<u><u>\$1,382,763</u></u>	<u><u>\$0</u></u>	<u><u>\$74,686</u></u>	<u><u>\$1,308,077</u></u>	<u><u>\$0</u></u>
Liabilities Not Covered by Budgetary Resources					
B. (1) Public Debt:					
(a) Held by Government Accounts	\$0	\$0	\$0	\$0	\$0
(b) Held by the public	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
(c) Total Public Debt	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>
(2) Agency Debt:					
(a) Held by Government Accounts	\$0	\$0	\$0	\$0	\$0
(b) Held by the public	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
(c) Total Agency Debt	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>
C. Total Liabilities For Debt Not Covered by Budgetary Resources	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>
D. Total Debt	<u><u>\$1,382,763</u></u>	<u><u>\$0</u></u>	<u><u>\$74,686</u></u>	<u><u>\$1,308,077</u></u>	<u><u>\$0</u></u>

E. Other Information: The majority of the balance, \$1.2 billion, was reported by the Navy Working Capital Fund (Navy Transportation - Military Sealift Command) and represents the outstanding principal balance on the Maritime Prepositioning Ships (MPS) equipment. The MPS program provided ships for time charter to Military Sealift Command (MSC) to meet requirements not available in the marketplace. The program was approved by the Congress. The ships were built/converted by private Interim Vessel Owners using private non-government

FOOTNOTES TO THE PRINCIPAL STATEMENTS

financing obtained from various banking institutions. No payments were made by the government during the building/conversion phase. The interim financing was replaced by permanent financing, and vessel ownership was transferred to the permanent vessel owners (a trust company acting for the benefit of equity investors). The ships were financed with approximately 30% equity investments and 70% debt borrowings. The debt is in the form of loans from the Federal Financing Bank (FFB) to the vessel owners. The Time Charter Party requires MSC to make semi-annual payments to cover the repayment of the interest and principal on the FFB loans.

Note 17. Other Liabilities (in thousands):

The schedule below shows those liabilities that will be liquidated with funds that have already been received (Covered by Budgetary Resources) as well as those liabilities that will have to be funded with future appropriations (Not Covered by Budgetary Resources). Additionally, components making up the balances in “Other Liabilities” are further segregated by source and include “Other Federal” (Intragovernmental) and “Non-Federal” (Governmental).

FOOTNOTES TO THE PRINCIPAL STATEMENTS

A. Other Liabilities Covered by Budgetary Resources:

	Noncurrent Liability	Current Liability	Total
1. Intragovernmental*			
(a) Unearned Revenue	\$0	\$1,996,116	\$1,996,116
(b) Treasury Cash Advances to Disbursing Officers	0	661,372	661,372
(c) Deposit Fund Liabilities	0	577,974	577,974
(d) Unearned Revenue, Intra-DoD	0	11,369	11,369
(e) Liability for Property Furnished by Others	0	576,564	576,564
(f) Progress Billings to Others	0	1,335,052	1,335,052
(g) Entity Accounts Receivable	271,046	0	271,046
(h) Non-entity Accounts Receivable	39,162	1,784	40,946
(i) Miscellaneous	1,044,053	74,923	1,118,976
(j) Cancelled Budget Authority	0	0	0
(k) Budget Clearing Account	0	(308,531)	(308,531)
(l) Advances-Government	66,449	678,407	744,856
(m) Advances-Loans	0	(1,453)	(1,453)
(n) Military Labor	0	64,984	64,984
(o) Undistributed Cash Disbursements	0	(1,328,950)	(1,328,950)
(p) Accrued Reserve Revenue	0	141,650	141,650
(q) Contingent Liabilities	0	97,847	97,847
Total	<u>\$1,420,710</u>	<u>\$4,579,108</u>	<u>\$5,999,818</u>

	Noncurrent Liability	Current Liability	Total
2. Governmental			
(a) Unearned Revenue	\$0	\$298,381	\$298,381
(b) Deferred Credits	56,574	67,992	124,566
(c) Entity Accounts Receivable	(24,242)	0	(24,242)
(d) Non-entity Accounts Receivable	(9,393)	4,209	(5,184)
(e) Deposit Fund Liabilities	0	62,070	62,070
(f) Contract Holdbacks	0	21,090	21,090
(g) Miscellaneous	(186)	113,852	113,666
(h) Advances-Other	0	310,066	310,066
(i) Accrued Expenses-Other	0	2,888,875	2,888,875
(j) Progress Payments-Contractor	0	0	0
(k) Claims	0	3,570	3,570
(l) Other Liabilities	0	219,760	219,760
Total	<u>\$22,753</u>	<u>\$3,989,865</u>	<u>\$4,012,618</u>

FOOTNOTES TO THE PRINCIPAL STATEMENTS

B. Other Information:

*Intragovernmental, Net differs from line 4.a. (4) of the Statement of Financial Position by the amount of intra-DoD other liabilities that must be eliminated as shown in Note 29, Schedule C (Column C).

C. Other Liabilities Not Covered by Budgetary Resources:

	Noncurrent Liability	Current Liability	Total
1. Intragovernmental			
(a) Cancelled Budget Authority	\$0	\$0	\$0
(b) Employer Share of Fringe Benefits	0	337,434	337,434
(c) Environmental Cleanup Costs	5,462,000	608,000	6,070,000
(d) Accrued Closed Years Accounts Payable	0	125,214	125,214
(e) Unemployment Benefits	32,879	8,519	41,398
(f) Workers' Comp Reimbursements to Department of Labor	145,233	116,141	261,374
(g) Voluntary Separation Incentive Cost	223,300	44,700	268,000
Total	<u>\$5,863,412</u>	<u>\$1,240,008</u>	<u>\$7,103,420</u>
2. Governmental			
(a) Cancelled Budget Authority	\$0	(\$128,075)	(\$128,075)
(b) Accrued Annual Leave, Military Unfunded	0	2,248,063	2,248,063
(c) Accrued Annual Leave, Civilian Unfunded	136,304	1,371,986	1,508,290
(d) Accrued Closed Years Accounts Payable	0	293,485	293,485
(e) Accrued Environmental Cleanup Costs	6,025,308	640,403	6,665,711
(f) Other	118	26,968,078	26,968,196
Total	<u>\$6,161,730</u>	<u>\$31,393,940</u>	<u>\$37,555,670</u>

D. Other Information: Part C.2(f) includes \$15.1 billion of estimated environmental clean-up costs reported by Army.

Note 18. Leases (in thousands):

The following schedules reported by the Army pertain to Operating and Capital Leases for Section 801 family housing leases (privately owned housing leased by the Army).

FOOTNOTES TO THE PRINCIPAL STATEMENTS

A. ENTITY AS LESSEE

Capital Leases

Summary of Assets Under Capital Lease:

Land and Buildings	\$0
Machinery and Equipment	\$0
Other	\$0
Accumulated Amortization	\$0

Description of Lease Arrangements:

Future Payments Due

<u>Fiscal Year</u>	<u>Asset Category</u>			Totals
	(1)	(2)	(3)	
Year 1	\$20,785	\$0	\$0	\$20,785
Year 2	20,785	0	0	20,785
Year 3	20,785	0	0	20,785
Year 4	20,785	0	0	20,785
Year 5	20,785	0	0	20,785
After 5 Years	<u>128,620</u>	<u>0</u>	<u>0</u>	<u>128,620</u>
Total Future Lease Payments	\$232,545	\$0	\$0	\$232,545
Less: Imputed Interest	68,518	0	0	68,518
Executory Costs (e.g., taxes)	<u>39,754</u>	<u>0</u>	<u>0</u>	<u>39,754</u>
Total Capital Lease Liability	<u><u>\$124,273</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$124,273</u></u>
			Funded	<u><u>\$0</u></u>
			Unfunded	<u><u>\$124,273</u></u>

Operating Leases

Description of Lease Arrangements

Future Payments Due

<u>Fiscal Year</u>	<u>Asset Category</u>			Totals
	(1)	(2)	(3)	
Year 1	\$16,369,424	\$0	\$0	\$16,369,424
Year 2	16,369,424	0	0	16,369,424
Year 3	16,369,424	0	0	16,369,424
Year 4	16,369,424	0	0	16,369,424
Year 5	16,369,424	0	0	16,369,424
After 5 Years	<u>97,948,049</u>	<u>0</u>	<u>0</u>	<u>97,948,049</u>
Total Future Lease Payments	<u><u>\$179,795,169</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$179,795,169</u></u>

FOOTNOTES TO THE PRINCIPAL STATEMENTS

B. ENTITY AS LESSOR

Capital Leases

Description of Lease Arrangements

Future Projected Receipts

<u>Fiscal Year</u>	<u>Asset Category</u>			Totals
	(1)	(2)	(3)	
Year 1	\$0	\$0	\$0	\$0
Year 2	0	0	0	0
Year 3	0	0	0	0
Year 4	0	0	0	0
Year 5	0	0	0	0
After 5 Years	0	0	0	0
Total Future Capital Lease Receivables	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

Operating Leases

Description of Lease Arrangements

Future Projected Receipts

<u>Fiscal Year</u>	<u>Asset Category</u>			Totals
	(1)	(2)	(3)	
Year 1	\$0	\$0	\$0	\$0
Year 2	0	0	0	0
Year 3	0	0	0	0
Year 4	0	0	0	0
Year 5	0	0	0	0
After 5 Years	0	0	0	0
Total Future Operating Lease Receivables	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

C. Other Information: Real property assets at overseas locations are classified as Capital Leases in accordance with DoD accounting policy. The policy requires that real property assets recorded under foreign government agreements permitting DoD occupancy of facilities - which require maintenance to be provided by DoD- be recorded as a capital lease. These “capital leases” do not fit the criteria of a typical capital lease due to the nature of the agreements with foreign governments and the fact that the assets have already been funded and disbursements have already been made out of appropriated funds. Consequently, no capital lease liability related to overseas real property assets is required for financial statement recognition.

FOOTNOTES TO THE PRINCIPAL STATEMENTS

Note 19. Pensions and Other Actuarial Liabilities (in thousands):

	(1)	(2)	(3)	(4)
<u>Major Program Activities</u>	<u>Actuarial Present Value of Projected Plan Benefits</u>	<u>Assumed Interest Rate (%)</u>	<u>Assets Available to Pay Benefits</u>	<u>Unfunded Actuarial Liability</u>
A. Pensions and Health Plans	<u>\$859,742,072</u>	<u>0.00%</u>	<u>\$140,640,969</u>	<u>\$719,101,103</u>
B. Insurance/Annuity Programs:				
(1) Voluntary Separation Incentive Benefits	\$1,801,000	<u>6.75%</u>	\$947,269	\$853,731
(2) Workmen's Comp	1,044,007	<u>0.00%</u>	0	1,044,007
(3) _____	<u>0</u>	<u>0.00%</u>	<u>0</u>	<u>0</u>
Total	<u>\$2,845,007</u>		<u>\$947,269</u>	<u>\$1,897,738</u>
C. Other:				
(1) Workmen's Comp	\$3,655,966	<u>6.40%</u>	0	\$3,655,966
(2) DoD Educ Benefits	727,568	<u>6.10%</u>	555,705	171,863
(3) Unfunded FECA	1,482,069	<u>0.00%</u>	0	1,482,069
(4) Other	<u>50,800</u>	<u>0.00%</u>	<u>6,612</u>	<u>44,188</u>
Total	<u>\$5,916,403</u>		<u>\$562,317</u>	<u>\$5,354,086</u>
D. Total Lines A+B+C	<u><u>\$868,503,482</u></u>		<u><u>\$142,150,555</u></u>	<u><u>\$726,352,927</u></u>

Other Information: Approximately \$501.1 billion in unfunded actuarial liability for the DoD Military Retirement is included in line A., Pensions and Health Plans, column 4. The Military Retirement System is a single-employer plan that is classified as a “Defined Benefit Plan.” Administrative costs are not borne by the plan. The actuarial cost method used is the aggregate entry-age-normal. Projected revenues, as authorized by PL98-94, are to be paid into the “Fund” at the beginning of each fiscal year by the Secretary of the Treasury as certified by the Secretary of Defense. This permanent indefinite appropriation, determined by the Board of Actuaries, represents the unfunded liability for service performed prior to October 1, 1984.

Accounting Method: Starting in FY 1997 and future years, the Military Retirement Trust Fund financial statements will present the unfunded actuarial liability determined as of the end of the fiscal year. This is a change from prior year reporting, which presented the beginning of year liability. This figure is approximate because of the lengthy time required to develop an accurate end of year actuarial estimate and the accelerated deadlines for financial statements.

Actuarial Cost Method: The Military Retirement Trust Fund financial statements present the actuarial liability as of the end of the fiscal year using the “projected benefit obligation” (PBO)

FOOTNOTES TO THE PRINCIPAL STATEMENTS

required by the Office of Management and Budget (OMB) Statement of Federal Financial Accounting Standards Number 5, “Accounting for Liabilities of the Federal Government.” This is a change from prior year reporting, which presented the beginning of the year “accumulated benefit obligation” (ABO), which assumes no future salary increases

Approximately \$218 billion in unfunded actuarial liability for the DoD military health benefits is also included in line A, Pensions and Health Plans, column 4. The FY 97 actuarial liability for post-retirement medical benefits is calculated under the aggregate entry age normal funding method. As is required under the Statement of Federal Financial Accounting Standards (SFFAS) No. 5, liabilities are spread over years of service, rather than over payroll. Because payroll is expected to increase, liabilities under SFFAS No. 5 will be higher than those calculated using a level percentage of payroll. SFFAS No. 5 will be higher than those calculated using a level percentage of payroll. Where appropriate, assumptions followed those used in the September 30, 1995 Valuation of the Military Retirement System, including a 6.75% assumed interest rate.

The FY 97 liability is based on medical counts and claims through FY 94, projected to the end of FY 97 using medical trend assumptions. Population data as of September 30, 1995 projected to the end of FY 97, is also used. This is the first time the SFFAS No. 5 post-retirement medical liability has been reported, hence the relative timing for these data and calculations may or may not be followed in future statements.

Data limitations and the difficulty of projecting medical costs make the estimated liability for post-retirement medical benefits less certain than the corresponding estimate for pension benefits. In addition, DoD is undergoing a transition to a new program called Tricare which will change the delivery system of health care. However, Tricare is in its infancy, and no data was available for the program at that time, thus no explicit adjustment has been made for Tricare for FY 97 liability estimate. Due to our difficulty in getting the desired data for the new format of health care, we were forced to rely on less recent data.

Legal actions brought by employees of DoD for on-the-job injuries fall under the Federal Employees Compensation Act (FECA) administered by the Department of Labor (DOL). DOL bills DoD annually as DOL claims are paid. However, payment on these bills is deferred two years to allow for funding through the budget process. Using actuarial estimates provided by DOL, DoD has recorded FECA liabilities for balances billed to DoD by DOL, and for estimates of the present values related to cases on hand at the end of the fiscal year. The amount of unfunded FECA liability (i.e. Workmen’s Comp) accrued as of September 30, 1997 was \$6.2 billion. A corresponding amount has been established as a future funding requirement.

FOOTNOTES TO THE PRINCIPAL STATEMENTS

Note 20. Net Position (in thousands):

	Revolving Funds	Trust Funds	Appropriated Funds	Total
A. Unexpended Appropriations:				
(1) Unobligated,				
a. Available	\$697,801	\$143,600	\$26,910,851	\$27,752,252
b. Unavailable	(256,123)	14,747	5,737,226	5,495,850
(2) Undelivered Orders	3,965,047	26,255	121,705,088	125,696,390
B. Invested Capital	119,304,286	1,113,493	918,533,654	1,038,951,433
C. Cumulative Results of Operations	(42,184,202)	688,552	(594,583)	(42,090,233)
D. Other	(748,726)	2,044	21,717	(724,965)
E. Future Funding Requirements	(2,366,528)	(502,099,815)	(269,182,747)	(773,649,090)
Total	<u>\$78,411,555</u>	<u>(\$500,111,124)</u>	<u>\$803,131,206</u>	<u>\$381,431,637</u>

G. Other Information: Within DoD \$501.1 billion pertains to the future funding requirements of the Military Retirement Trust Funds and \$218 billion pertains to military health benefits.

Net Position is comprised of the following components:

Unexpended appropriations - amount of budget authority remaining for disbursement against current or future obligations. Unobligated balances are classified as available or unavailable. Certain unobligated balances are restricted for future use and are not available for current use. "Undelivered Orders" represent those goods and services that have not yet been received/performed. Multi-year appropriations remain available to the DoD for obligation in future periods. However, unobligated balances associated with appropriations expiring at fiscal year end remain available only for obligation adjustments until the account is closed. Generally speaking, accounts close five years after the appropriation expires.

Invested capital - represents the net investment of the Government in the DoD. Includes the initial investment and subsequent appropriations to finance program activities. Also included is the net balance of assets and liabilities that have been transferred in and out to DoD Components or other U.S. Government Agencies without reimbursement.

Cumulative results of operations - represents the cumulative net difference between (1) expenses and losses and (2) financing sources to include appropriations, revenues and gains.

Other - represents other components of net position not specifically identified above.

Future Funding Requirements - Accrued expenses such as annual and military leave earned but not taken are not funded in the period the expense is recorded. These future funding requirements are recognized as an offset to "Net Position."

FOOTNOTES TO THE PRINCIPAL STATEMENTS

Note 21. Taxes: Not applicable

Note 22. Other Revenue and Financing Sources (in thousands):

	<u>1997</u>	<u>1996</u>
A. Other Revenues and Financing Sources:		
(1) Inventory Gains	\$0	\$457,944
(2) Investment Gains	0	212
(3) Cost Contributions from Services	0	11,174,163
(4) Unfunded Liability Payment from Treasury	0	10,699,000
(5) Miscellaneous Reimbursements	3,833,470	1,169,388
(6) Other Miscellaneous Gains	12,358	103,518
(7) Benefit Program Revenue	7,025,382	397,902
(8) Gain on Disposition of Assets	1,637	5,566
(9) Donations	2,488	2,257
(10) Other Revenues	<u>2,462,604</u>	<u>647,464</u>
Total	<u><u>\$13,337,939</u></u>	<u><u>\$24,657,414</u></u>

B. Other Information: Statement of Federal Financial Accounting Standards (SFFAS) Number 5 established accounting and reporting standards for liabilities relating to the Federal employee benefit programs (Retirement, Health Benefits and Life Insurance). The adoption of SFFAS-5 is required for FY 97 and results in a significant increase of “Other Revenues and Financing Sources” over previous reporting years. The imputed revenue for Pension and Other Retirement Benefits (ORB) has been recorded accordingly.

The Office of Personnel Management (OPM) is the administrative entity for ORB . OPM accounts for and reports the pension liability in the financial statements while the employer disclosed the imputed financing. OPM actuaries provide the normal cost rates which are used to calculate the imputed financing.

Other revenues and financing sources also include miscellaneous receipts, donated revenue and inventory and other gains. Miscellaneous receipts, which are unavailable for agency use and are returned to Treasury, consist of license, fees, fines, penalties and general fund receipts.

FOOTNOTES TO THE PRINCIPAL STATEMENTS

Note 23. Program or Operating Expenses (in thousands):

	<u>1997</u>	<u>1996</u>
A. Operating Expenses by Object Classification:		
(1) Personal Services and Benefits	\$96,266,616	\$102,079,103
(2) Travel and Transportation	8,083,839	8,751,248
(3) Rental, Communication and Utilities	4,807,057	4,385,373
(4) Printing and Reproduction	279,205	254,578
(5) Contractual Services	83,932,388	81,732,984
(6) Supplies and Materials	16,492,006	12,797,033
(7) Equipment not Capitalized	6,198,152	4,175,490
(8) Grants, Subsidies and Contributions	1,336,785	504,683
(9) Insurance Claims and Indemnities	4,125,490	29,139,922
(10) Other	17,702,659	13,597,799
(11) Total Expenses by Object Class	<u>\$239,224,197</u>	<u>\$257,418,213</u>
	<u>1997</u>	<u>1996</u>
B. Operating Expenses by Program:		
(1) Revolving Fund	\$506,278	\$615,954
(2) General Fund	156,528,353	152,980,046
(3) Trust Fund	544,200	548,431
(4) Special Fund	673	494
(5) Unallocated Expense	0	0
Totals	<u>\$157,579,504</u>	<u>\$154,144,925</u>

C. Other Information: FY 96 Total Expenses differ from prior year published figures by \$148 thousand as a result of reclassifying MSSO/CIM Program and Operating Expenses, Line 9, to Depreciation expense, Line 11.

FOOTNOTES TO THE PRINCIPAL STATEMENTS

Note 24. Cost of Goods Sold (in thousands):

A. Cost of Goods Sold:

(1) Beginning Work-in-Process	\$2,531,553
(2) Plus: Operating Expenses	51,448,481
(3) Minus: Ending Work-in-Process	2,411,333
(4) Minus: Completed Work for Activity Retention	<u>46,313</u>
Cost of Services Sold	<u><u>\$51,522,388</u></u>

B. Cost of Goods Sold from Inventory (using Latest Acquisition Cost):

(1) Beginning Inventory - L.A.C.	\$81,378,904
(2) Less: Beginning Allowance for Unrealized Holding Gains (Losses)	21,073,009
(3) Plus: Purchases at Cost	30,736,972
(4) Plus: Customer Returns - Credit Given	3,823,834
(5) Plus: DLR Exchange Credits	2,604,399
(6) Less: Inventory Losses Realized	7,967,224
(7) Less: Ending Inventory - L.A.C.	80,202,641
(8) Plus: Ending Allowance for Unrealized Holding Gains (Losses)	22,188,109
(9) Less: Equity Transfers of Inventory to Others	969,544
(10) Plus: Equity Transfers of Inventory from Others	2,644,613
(11) Plus: Other	
a. Repair Cost adjustment	1,119,092
b. Beginning Allowance Adjustment from Prior Year	<u>3,903,967</u>
(12) Equals: Cost of Goods Sold from Inventory	<u><u>\$38,187,472</u></u>

C. Cost of Goods Sold from Inventory (using Historical Cost):

(1) Beginning Inventory	\$3,696,491
(a) Plus: Purchases at Cost	0
(b) Plus: Inventory Gains	431
(c) Minus: Inventory Losses	3,352
(2) Less: Ending Inventory	3,320,087

D. Intra eliminations

WCF	8,288,204
DoD Wide Consolidated	54,025,394

E. Cost of Goods Sold

\$27,769,745

F. Other Information: Beginning and ending inventories are shown at latest acquisition less the potential excess inventory to calculate the cost of goods sold. The break-out between Cost of Goods Sold to the Public and the Cost of Goods, Intragovernmental was calculated by proration based on revenues generated.

FOOTNOTES TO THE PRINCIPAL STATEMENTS

Note 25. Other Expenses (in thousands):

	<u>1997</u>	<u>1996</u>
A. Other Expenses:		
(1) Inventory Losses or Adjustments	\$8,692,824	\$8,234,769
(2) Transfer to Property Disposal	2,339,600	2,494,835
(3) Potential Excess Inventory Loss	(357,484)	(331,966)
(4) Shrinkage, Fire, Theft, Losses, Etc.	805,541	378,178
(5) Payroll Variances	(17,422)	4,171
(6) Accrued Annual Leave	223,375	136,350
(7) Real Property Maintenance	60	0
(8) Losses on Sale of Fixed Assets	803	21,382
(9) Discounts on Material Returns	2,211	2,945
(10) Environmental Clean-Up	6,070,000	0
(11) Prior Year Expense Adjustment	0	(2,113)
(12) Supply	0	(2,814,889)
(13) Sum of USD(C) Model Entries	(2,870,670)	(3,868,016)
(14) Depot Maintenance	32,485	45,837
(15) Operating Materials and Supplies Variance	(8,884)	(93)
(16) Losses on Disposition of Assets	21,196	0
(17) Other Expenses	2,088,478	218,881
(18) Changes in Actuarial Liabilities	4,368,163	18,595,615
(19) Other Miscellaneous Losses	982,870	(91,709)
(20) Pension, Health, and Life Insurance Benefits	3,201,018	0
(21) Estimated Losses on Foreign Currency Transactions	1,013	0
(22) DLR Advance Credit	(61,023)	0
Total Other Expenses	<u>\$25,514,154</u>	<u>\$23,024,177</u>

B. Other Information: Statement of Federal Financial Accounting Standards (SFFAS) Number 5 established accounting and reporting standards for liabilities relating to the Federal employee benefit programs (Retirement, Health Benefits and Life Insurance). The adoption of SFFAS-5 is required for FY 97 and results in a significant increase of “Other Revenues and Financing Sources” over previous reporting years. The imputed expense for Pension and Other Retirement Benefits (ORB) has been recorded accordingly.

The Office of Personnel Management (OPM) is the administrative entity for ORB. OPM accounts for and reports the pension liability in the financial statements while the employer disclosed the imputed financing. OPM actuaries provide the normal cost rates which are used to calculate the imputed financing.

Other revenues and financing sources also include miscellaneous receipts, donated revenue and inventory and other gains. Miscellaneous receipts, which are unavailable for agency use and are returned to Treasury, consist of license, fees, fines, penalties and general fund receipts.

FOOTNOTES TO THE PRINCIPAL STATEMENTS

Note 26. Extraordinary Items (in thousands):

A. Extraordinary Items:

(1) Inventory losses from fire and theft	\$0
(2) Surcharges	(566,639)
(3) Extraordinary Current Year Expense	1,984
(4) Passthroughs	0
(5) Military Labor Variance	(5,198)
(6) Reserve Balancing	(1,969)
(7) Fixed Asset Adjustment	0
(8) Litigation over Sale of Tanks	(825)
(9) Depot Maintenance	0
(10) BRAC	<u>(22,684)</u>
Total	<u><u>(\$595,331)</u></u>

FOOTNOTES TO THE PRINCIPAL STATEMENTS

Note 27. Prior Period Adjustments (in thousands):

A. Prior Period Adjustments:

(1) Accounting Changes	\$100,539
(2) Adjustments to Operating Materials and Supplies	0
(3) Adjustments to Property & Equipment	(29,898)
(4) Adjustments to future funding requirements	(2,008,612)
(5) Adjustments to reclassify account balances	0
(6) Prior year contract adjustments	(18,510)
(7) Write-off of prior year accounts payable and receivables	0
(8) Inventory adjustments	(1,518,730)
(9) Other adjustments	(311,334,044)
(10) BRAC Costs	62,852
(11) USD(C) Model Prior Period AOR Adjustment	2,131,132
(12) Accounts Payable Transfer to Equity	(52,986)
(13) Prior Period AOR Adjustment	951,399
(14) Reparable Support Division Adjustment	(738,772)
(15) Cumulative Results of Operations	(8,712)
(16) Overstated Accounts Payable	(145)
(17) BOP Fund Balance Error	(11)
(18) Collections & Disbursements	10,965
(19) Salaries & Wages	390
(20) Unit Repair Cost Error	(18,177)
(21) WIP Correction	(6,937)
(22) Bad Debts Correction	2,585
(23) Plant Increment Income	(852,458)
(24) SWD Audit Adjustments	880,569
(25) COEMIS Adjustments	(353,761)
Total	<u><u>(\$312,801,322)</u></u>

The amount reflected in line (9), “Other Adjustments.” is comprised of \$218 billion in unfunded actuarial liability for the DoD military health benefits, a \$78.1 billion “Change in Actuarial Liability” reported by the Military Retirement Trust Fund and \$15.1 billion reported by Army in accordance with Statement of Federal Financial Accounting Standard Number 6, “Property, Plant, and Equipment” which requires that the offsetting charges against liabilities recognized for environmental cleanup costs be recorded as a prior period adjustment.

FOOTNOTES TO THE PRINCIPAL STATEMENTS

Note 28. Non-Operating Changes - (Transfers and Donations) (in thousands):

A. Increases:	<u>1997</u>	<u>1996</u>
(1) Transfers-In	\$46,058,938	\$3,667,568
(2) Unexpended Appropriations	75,717,045	82,609,261
(3) Donations Received	263,988	35,136
(4) Other Increases	<u>278,436,309</u>	<u>24,601,013</u>
(5) Total Increases	<u><u>\$400,476,280</u></u>	<u><u>\$110,912,978</u></u>
B. Decreases:	<u>1997</u>	<u>1996</u>
(1) Transfers-Out	\$50,087,558	\$20,080,374
(2) Donations	622,731	0
(3) Other Decreases	<u>323,366,396</u>	<u>96,350,060</u>
(4) Total Decreases	<u><u>\$374,076,685</u></u>	<u><u>\$116,430,434</u></u>
C. Net Non-Operating Changes (Transfers):	<u><u>\$26,399,595</u></u>	<u><u>(\$5,517,456)</u></u>

Note 29. Intrafund Eliminations (in thousands):

Schedules A, B, are not applicable to the DoD-Wide consolidated financial statements. Schedule C presents the totals of the transactions that were eliminated from the Statement of Financial Position and Statement of Operations (and Changes in Net Position) since they represent activity between DoD entities. Schedule D shows the sales or services activity between the Department of Defense and other U.S. Government entities.

Schedule A: Not applicable.

Schedule B: Not applicable.

FOOTNOTES TO THE PRINCIPAL STATEMENTS

Schedule C: Presents the sales or services between DoD reporting entities according to general ledger amounts for accounts receivable, revenue, unearned revenue, and collections. It is presumed that an equal amount of accounts payable, expenses, advances and disbursements have been entered on the accounting records of the purchasing activity. DoD continues efforts to identify and report seller activity for eliminating entries required to prepare the DoD consolidated statements.

Selling Activity:	Column A	Column B	Column C	Column D
	Accounts Receivable	Revenue	Unearned Revenue	Collections
Department of the Army	\$632,650	\$6,451,382	\$0	\$5,737,533
Department of the Navy	1,415,621	3,520,376	0	3,506,396
Department of the Air Force	642,696	1,885,059	0	2,126,137
Army WCF	199,109	6,426,642	0	6,299,686
Navy WCF	0	15,798,978	0	15,798,978
Air Force WCF	456,038	7,723,860	0	7,267,822
DLA WCF	625,900	11,926,063	0	11,923,071
DISA WCF	325,594	2,087,881	0	2,051,867
DFAS WCF	10,646	1,737,855	0	1,767,587
DeCA WCF	6,532	31,303	0	38,563
JLSC WCF	0	0	0	0
U.S. TRANSCOM WCF	571,501	3,818,314	0	4,156,212
OTHER WCF	6,942	0	0	0
DoD Military Retirement Trust Fund	0	26,252,570	0	26,252,570
National Defense Stockpile	0	0	0	0
U.S. Army Corps of Engineers	0	0	0	0
Other Defense Organizations	586,722	4,425,362	0	4,310,098
Unearned Revenue	0	0	1,694,999	0
Total	\$5,479,951	\$92,085,645	\$1,694,999	\$91,236,520

Customer Activity:	Column A	Column B	Column C	Column D
	Accounts Payable	Expenses	Advances	Disbursements
Department of the Army	\$518,610	\$15,475,668	\$0	\$13,924,401
Department of the Navy	423,745	24,599,488	0	23,970,559
Department of the Air Force	946,228	18,517,000	0	16,133,422
Army WCF	31,499	356,437	0	358,490
Navy WCF	41,558	241,293	0	235,807
Air Force WCF	291,624	1,423,432	0	1,450,141
DLA WCF	66,684	570,393	0	404,548
DISA WCF	8,263	23,126	0	24,460
DFAS WCF	43,890	137,037	0	152,668
DeCA WCF	77,576	348,543	0	60,115
JLSC WCF	7,453	12,937	0	6,007
U.S. TRANSCOM WCF	2,976	31,198	0	40,236
OTHER WCF	142,699	743,098	0	741,576
DoD Military Retirement Trust Fund	0	0	0	0
National Defense Stockpile	0	0	0	0
U.S. Army Corps of Engineers	19,057	53,536	0	47,713
Other Defense Organizations	2,858,089	29,552,459	0	33,686,377
Advances	0	0	1,694,999	0
Total	\$5,479,951	\$92,085,645	\$1,694,999	\$91,236,520

Schedule D: This schedule presents the value of sales and services between the Department of Defense and other U.S. Government entities. This information is needed by the Department of the Treasury to prepare U.S. Government-wide consolidated financial statements. The transactions are based on the accounting records of the Department of Defense. It is presumed

FOOTNOTES TO THE PRINCIPAL STATEMENTS

that an equal amount of accounts payable, expenses, advances, and disbursements have been entered on the accounting records of the purchasing entity.

	Accounts Receivable	Revenue	Unearned Revenue	Collections
Department of the Army	\$227,687	\$322,705	\$0	\$198,967
Department of the Navy	523,239	695,609	0	286,440
Department of the Air Force	402,126	1,021,710	0	782,791
Army WCF	7,862	11,713	0	0
Navy WCF	0	646,614	0	681,746
Air Force WCF	99,474	1,103,599	0	1,004,125
DLA WCF	77,747	164,273	0	168,418
DISA WCF	200,475	359,558	0	368,965
DFAS WCF	19,129	44,975	0	46,965
DeCA WCF	698	3,603	0	3,461
JLSC WCF	0	0	0	0
U.S. TRANSCOM WCF	1,243	12,696	0	98,434
OTHER WCF	7	0	0	0
DoD Military Retirement Trust Fund	4,228,139	11,807,681	0	11,807,681
National Defense Stockpile	0	21,276	0	21,276
U.S. Army Corps of Engineers	0	0	0	0
Other Defense Organizations	212,003	1,135,369	0	1,106,988
Unearned Revenue	0	0	161,001	0
Total	\$5,999,829	\$17,351,381	\$161,001	\$16,576,257

Customer Activity:

	Column A	Column B	Column C	Column D
	Accounts Payable	Expenses	Advances	Disbursements
Department of Agriculture	\$38,865	\$25,963	\$0	\$22,812
Department of Commerce	1,934	528	0	493
Department of Interior	7,932	5,435	0	5,526
Department of Justice	11,334	21,452	0	19,538
Department of Labor	15	18	0	11
Department of State	14,514	269,645	0	265,559
Department of the Treasury	4,237,443	11,843,579	0	11,845,271
Office of Personnel Management	0	0	0	0
U.S. Nuclear Regulatory Commission	170	427	0	380
Department of Veterans Affairs	3,863	6,747	0	4,451
General Service Administration	152,294	342,241	0	246,276
National Science Foundation	0	0	0	0
Federal Emergency Management Agency	4,669	(708)	0	767
Environmental Protection Agency	554	1,465	0	1,772
Department of Transportation	18,212	268,968	0	261,992
Agency for International Development	0	0	0	0
Small Business Administration	0	0	0	0
Department of Health and Human Services	4,106	4,715	0	5,673
National Aeronautics and Space Administration	64,610	286,415	0	334,302
Department of Housing and Urban Development	822	888	0	72
Department of Energy	713	2,284	0	2,138
Department of Education	0	0	0	0
Government Printing Office	0	0	0	0
Executive Office of the President/	2,389	9,967	0	2,284
Defense Security Assistance Agency	321,039	1,011,625	0	734,097
Miscellaneous Government Departments	1,126,220	3,106,931	0	2,668,178
Unknown/Unidentifiable	(11,869)	142,796	0	154,665
Advances	0	0	161,001	0

FOOTNOTES TO THE PRINCIPAL STATEMENTS

Other information:

DoD continues efforts to specifically identify sales to other U.S. government agencies and to separately report in Schedule D eliminating amounts needed to prepare U.S. government wide consolidated financial statements.

Note 30. Contingencies:

The DoD canceled all merged year and expiring account appropriations. The DoD may still be responsible for obligations related to the canceled appropriations.

The DoD is responsible for costs associated with environmental cleanup. Navy estimates possible environmental cleanup costs at \$6.0 billion for FY 97. The total estimated cost to the Air Force and Army to complete environmental cleanup is \$6.3 billion and \$15.1 billion, respectively. These liabilities have been included in the financial statements and are reflected in line 7.b(5) as Other Non-Federal (Governmental) Liabilities as a part of Liabilities Not Covered by Budgetary Resources on the statement of financial position and in line 7.e, Future Funding Requirements on the statement of financial position. A prior period adjustment was recorded in the applicable statements for the same amounts to recognize the liability in accordance with Statement of Federal Financial Accounting Standard Number 6, "Property, Plant, and Equipment".

The DoD is subject to various asserted contract claims for over \$100 million. These claims are in various phases ranging from investigation to appeal. While no opinion has been expressed regarding the likely outcome for specific claims or possible associated loss, experience indicates that many such claims are settled for less than claimed, dismissed altogether, or the possibility of the contingency materializing is remote. Contractor claims are funded primarily from DoD appropriations. As of September 30, 1997 Air Force was a party to 224 contract appeals. The total dollar value of these claims was approximately \$630.7 million. Similarly, Navy was a party to several contract appeals with an approximate total of \$1.7 billion.

It is uncertain that these claims will ever accrue to the DoD and thus are not reflected in the financial statements. In addition to the fact that many cases simply lack merit, most claims, even if successful, will not be paid from DoD accounts. Rather, judgments are ordinarily paid from the GAO Judgment Fund. In many cases involving attorney fees, the amounts are not known until the last appeal is taken.

FOOTNOTES TO THE PRINCIPAL STATEMENTS

Note 31. Other Disclosures (in thousands):

A. Problem Disbursements:

Problem disbursements represent disbursements of DoD funds that have been reported by a Treasury Disbursing Station Symbol Number (DSSN) to Treasury but have not yet been precisely matched against the specific source obligation giving rise to the disbursement. Problem disbursements represent a significant financial management concern because: (1) the accuracy of accounting reports is affected; (2) available funding picture is distorted; and (3) the research and resolution process can be very labor intensive. Initiatives such as prevalidation of payments, are well underway to reduce or eliminate problem disbursements. In the case of prevalidation efforts, entitlement personnel and accountants are now required to jointly ensure that an obligation of funds sufficient to cover the amount of the proposed disbursement has been recorded in the accounting records. This validation must be done for all payments exceeding a specified threshold. Eventually, all payments will be prevalidated prior to the disbursement of funds. The following chart shows the balances reported by the military departments and Working Capital Funds. Negative Unliquidated Disbursements represent disbursements in excess of the obligations against which the disbursements are posted.

	<u>September 1996</u>	<u>September 1997</u>	<u>Change</u>	<u>Percent Change</u>
Unmatched Disbursements	\$8,087,959	\$5,886,788	(\$2,201,171)	-27.22%
Negative Unliquidated Obligations	<u>3,261,640</u>	<u>3,106,046</u>	<u>(155,594)</u>	<u>-4.77%</u>
Totals:	<u><u>\$11,349,599</u></u>	<u><u>\$8,992,834</u></u>	<u><u>(\$2,356,765)</u></u>	<u><u>-20.77%</u></u>

B. Canceled Balances: All unliquidated balances associated with the closed accounts have been canceled in accordance with Public Law 101-510. Canceled accrued expenditures unpaid are reflected in the financial statements as unfunded liabilities. Canceled undelivered orders outstanding are not included in the financial statements; however, these orders may result in future expenditures.

DEPARTMENT OF DEFENSE

***AGENCY-WIDE
FINANCIAL STATEMENTS***

CONSOLIDATING STATEMENTS

CONSOLIDATING STATEMENTS

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Consolidating Statements

Department of Defense
Statement of Financial Position
As of September 30, 1997
(Thousands)

ASSETS	Army	Navy	Air Force	Army WCF
1. Entity Assets:				
a. Transactions with Federal (Intragovernmental) Entities:				
(1) Fund Balance with Treasury (Note 2)	\$30,638,662	\$58,009,408	\$44,821,296	\$405,841
(2) Investments, Net (Note 4)	1,010	8,610	949	0
(3) Accounts Receivable, Net (Note 5)	1,146,531	3,134,834	991,346	278,538
(4) Interest Receivable	0	0	0	0
(5) Advances and Prepayments	19,990	0	183	3,478
(6) Other Federal (Intragovernmental) (Note 6)	0	0	0	0
b. Transactions with Non-Federal (Governmental) Entities:				
(1) Investments (Note 4)	0	0	0	0
(2) Accounts Receivable, Net (Note 5)	129,059	2,526,405	319,518	34,662
(3) Credit Program Receivables/ Related Foreclosed Property, Net (Note 7)	0	0	0	0
(4) Interest Receivable, Net	0	0	0	0
(5) Advances and Prepayments	2,536,775	4,786,022	7,923,141	254,275
(6) Other Non-Federal (Governmental) (Note 6)	0	0	0	0
c. Cash and Other Monetary Assets (Note 3)	24,680	0	0	0
d. Inventory, Net (Note 8)	1,526,589	43	1,628,051	10,186,464
e. Work in Process (Note 9)	0	6,208	0	296,014
f. Operating Materials/Supplies, Net (Note 10)	0	0	0	148,798
g. Stockpile Materials, Net (Note 11)	0	0	0	0
h. Seized Property (Note 12)	0	0	0	0
i. Forfeited Property, Net (Note 13)	0	0	0	0
j. Goods Held Under Price Support and Stabilization Programs, Net (Note 14)	0	0	0	0
k. Property, Plant and Equipment, Net (Note 15)	132,030,736	334,588,778	249,149,633	2,197,140
l. War Reserves	46,760,379	54,589,962	38,707,359	0
m. Other Entity Assets	0	0	0	680,951
n. Total Entity Assets	\$214,814,411	\$457,650,270	\$343,541,476	\$14,486,161
2. Non-Entity Assets:				
a. Transactions with Federal (Intragovernmental) Entities:				
(1) Fund Balance with Treasury (Note 2)	\$213,364	(\$327,502)	\$32,415	\$0
(2) Accounts Receivable, Net (Note 5)	0	30,768	0	0
(3) Interest Receivable, Net	0	0	0	0
(4) Other (Note 6)	0	0	0	0

The accompanying notes are an integral part of these statements.

\$0	\$0	\$23,762	\$0	\$0	\$0
0	0	0	0	0	0
0	0	0	0	0	0
393,512	0	0	0	0	0

Consolidating Statements

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	U.S. Transportation Command WCF	Defense Information Systems Agency WCF	WCF Component Adjustments *
ASSETS			
1. Entity Assets:			
a. Transactions with Federal (Intragovernmental) Entities:			
(1) Fund Balance with Treasury (Note 2)	\$552,732	\$180,855	\$1,205,891
(2) Investments, Net (Note 4)	0	0	0
(3) Accounts Receivable, Net (Note 5)	637,375	432,880	59,427
(4) Interest Receivable	0	0	0
(5) Advances and Prepayments	458	80	(17)
(6) Other Federal (Intragovernmental) (Note 6)	30,285	9	0
b. Transactions with Non-Federal (Governmental) Entities:			
(1) Investments (Note 4)	0	0	0
(2) Accounts Receivable, Net (Note 5)	18,193	2,698	0
(3) Credit Program Receivables/ Related Foreclosed Property, Net (Note 7)	0	0	0
(4) Interest Receivable, Net	0	0	0
(5) Advances and Prepayments	1,861	1,378	0
(6) Other Non-Federal (Governmental) (Note 6)	144,051	0	0
c. Cash and Other Monetary Assets (Note 3)	0	0	0
d. Inventory, Net (Note 8)	0	0	0
e. Work in Process (Note 9)	0	34,739	0
f. Operating Materials/Supplies, Net (Note 10)	17,633	707	0
g. Stockpile Materials, Net (Note 11)	0	0	0
h. Seized Property (Note 12)	0	0	0
i. Forfeited Property, Net (Note 13)	0	0	0
j. Goods Held Under Price Support and Stabilization Programs, Net (Note 14)	0	0	0
k. Property, Plant and Equipment, Net (Note 15)	1,190,900	226,699	30,883
l. War Reserves	0	0	0
m. Other Entity Assets	0	0	0
n. Total Entity Assets	\$2,593,488	\$880,045	\$1,296,184
2. Non-Entity Assets:			
a. Transactions with Federal (Intragovernmental) Entities:			
(1) Fund Balance with Treasury (Note 2)	\$0	\$0	\$0
(2) Accounts Receivable, Net (Note 5)	0	0	0
(3) Interest Receivable, Net	0	0	0
(4) Other (Note 6)	0	0	0

The accompanying notes are an integral part of these statements.

DoD Military Retirement Trust Fund	National Defense Stockpile Transaction Fund	Other Defense Organizations	U.S. Army Corps of Engineers (Civil Works)	Eliminating Entries	Total
\$4,645	\$519,768	\$30,640,734	\$2,097,700	\$0	\$169,287,308
139,014,269	0	1,528,897	302,984	0	140,856,719
0	35	1,618,739	280,160	(5,479,951)	5,542,903
4,228,139	0	28,683	1,573	0	4,258,395
0	1,184	102	(14,594)	(1,694,999)	(1,530,399)
0	0	0	0	0	415,021
0	0	0	0	0	0
24,969	278,539	1,483,127	614,238	0	6,152,092
0	0	0	0	0	0
0	0	410	0	0	543
0	0	78,195	7,011	0	16,130,693
0	0	47,220	(920)	0	1,354,377
0	0	721	2,401	0	27,839
0	0	111,675	8,608	0	61,289,500
0	0	0	0	0	2,411,333
0	0	0	643	0	1,475,518
0	3,320,087	0	0	0	3,320,087
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	258	10,828,231	37,263,466	0	777,032,816
0	0	0	0	0	140,057,700
0	0	1,318	(216,048)	0	919,269
\$143,272,022	\$4,119,871	\$46,368,052	\$40,347,222	(\$7,174,950)	\$1,329,001,714
\$0	\$0	\$147,798	\$76,146	\$0	\$165,983
0	0	0	0	0	30,768
0	0	0	0	0	0
0	0	0	0	0	393,512

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ASSETS, Continued

	<u>Army</u>	<u>Navy</u>	<u>Air Force</u>	<u>Army WCF</u>
2. Non-Entity Assets:				
b. Transactions with Non-Federal (Governmental) Entities:				
(1) Accounts Receivable, Net (Note 5)	\$62,182	\$5,363	\$31,286	\$0
(2) Interest Receivable, Net	1,305	0	10,959	0
(3) Other (Note 6)	0	0	48,245	0
c. Cash and Other Monetary Assets (Note 3)	164,069	150,956	123,831	0
d. Other Non-Entity Assets	0	0	0	0
e. Total Non-Entity Assets	\$440,920	(\$140,415)	\$246,736	\$0
3. Total Assets	\$215,255,331	\$457,509,855	\$343,788,212	\$14,486,161

LIABILITIES

4. Liabilities Covered by Budgetary Resources:

a. Transactions with Federal (Intragovernmental) Entities:				
(1) Accounts Payable	\$1,495,701	(\$27,956)	\$199,080	\$373,277
(2) Interest Payable	0	0	0	0
(3) Debt (Note 16)	0	0	0	0
(4) Other Federal (Intragovernmental) Liabilities (Note 17)	1,499,660	146,089	535,203	488,129
b. Transactions with Non-Federal (Governmental) Entities:				
(1) Accounts Payable	795,710	3,165,383	5,173,324	308,338
(2) Accrued Payroll and Benefits				
(a) Salaries and Wages	2,273,792	1,204,622	1,079,401	82,365
(b) Annual Accrued Leave	0	0	0	71,733
(c) Severance Pay and Separation Allowance	393,899	215,959	182,736	0
(3) Interest Payable	0	0	0	0
(4) Liabilities for Loan Guarantees (Note 7)	0	0	0	0
(5) Lease Liabilities (Note 18)	0	0	0	0
(6) Pensions and Other Actuarial Liabilities (Note 19)	0	0	0	0
(7) Other Non-Federal (Governmental) Liabilities (Note 17)	319,082	40,007	5,376	60,655
c. Total Liabilities Covered by Budgetary Resources:	\$6,777,844	\$4,744,104	\$7,175,120	\$1,384,497

The accompanying notes are an integral part of these statements.

<u>Navy WCF</u>	<u>Air Force WCF</u>	<u>Defense Logistics Agency WCF</u>	<u>Defense Finance and Accounting Service WCF</u>	<u>Defense Commissary Agency WCF</u>	<u>Joint Logistics Systems Center WCF</u>
\$0	\$0	\$0	\$0	\$0	\$0
0	0	0	0	0	0
0	4	0	0	0	0
0	0	0	0	0	0
0	0	65,966	0	0	0
\$393,512	\$4	\$89,728	\$0	\$0	\$0
\$23,940,364	\$28,713,080	\$12,024,468	\$734,812	\$388,084	\$1,489,898

\$844,275	\$748,279	\$677,526	\$163,733	\$171,645	\$23,100
0	0	0	0	0	0
1,164,026	0	0	0	0	0
1,383,055	1,322,551	87,544	0	0	0
(33,134)	468,546	811,824	286,253	431,228	0
271,230	118,759	16,235	8,223	13,682	211
461,304	106,518	102,190	384	0	767
0	0	0	0	0	0
1	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
2,941,801	85,832	67,519	0	0	0
\$7,032,558	\$2,850,485	\$1,762,838	\$458,593	\$616,555	\$24,078

Consolidating Statements

Department of Defense
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	U.S. Transportation Command WCF	Defense Information Systems Agency WCF	WCF Component Adjustments *
ASSETS, Continued			
2. Non-Entity Assets:			
b. Transactions with Non-Federal (Governmental) Entities:			
(1) Accounts Receivable, Net (Note 5)	\$0	\$0	\$0
(2) Interest Receivable, Net	0	0	0
(3) Other (Note 6)	0	0	0
c. Cash and Other Monetary Assets (Note 3)	0	0	0
d. Other Non-Entity Assets	0	0	0
e. Total Non-Entity Assets	\$0	\$0	\$0
3. Total Assets	\$2,593,488	\$880,045	\$1,296,184
LIABILITIES			
4. Liabilities Covered by Budgetary Resources:			
a. Transactions with Federal (Intragovernmental) Entities:			
(1) Accounts Payable	\$395,174	\$19,264	(\$40,677)
(2) Interest Payable	0	0	0
(3) Debt (Note 16)	144,051	0	0
(4) Other Federal (Intragovernmental) Liabilities (Note 17)	173,648	21	0
b. Transactions with Non-Federal (Governmental) Entities:			
(1) Accounts Payable	460,718	444,392	5,821
(2) Accrued Payroll and Benefits			
(a) Salaries and Wages	59,151	10,200	0
(b) Annual Accrued Leave	15,835	25,023	0
(c) Severance Pay and Separation Allowance	28	0	0
(3) Interest Payable	0	0	0
(4) Liabilities for Loan Guarantees (Note 7)	0	0	0
(5) Lease Liabilities (Note 18)	0	0	0
(6) Pensions and Other Actuarial Liabilities (Note 19)	0	0	0
(7) Other Non-Federal (Governmental) Liabilities (Note 17)	181,356	28,508	0
c. Total Liabilities Covered by Budgetary Resources:	\$1,429,961	\$527,408	(\$34,856)

The accompanying notes are an integral part of these statements.

DoD Military Retirement Trust Fund	National Defense Stockpile Transaction Fund	Other Defense Organizations	U.S. Army Corps of Engineers (Civil Works)	Eliminating Entries	Total
\$0	\$0	\$0	\$130	\$0	\$98,961
0	2,642	0	0	0	14,906
0	0	0	0	0	48,249
0	0	0	215	0	439,071
0	0	0	0	0	65,966
\$0	\$2,642	\$147,798	\$76,491	\$0	\$1,257,416
\$143,272,022	\$4,122,513	\$46,515,850	\$40,423,713	(\$7,174,950)	\$1,330,259,130

\$0	\$60,632	\$791,171	\$659,034	(\$5,479,951)	\$1,073,307
0	0	0	0	0	0
0	0	0	0	0	1,308,077
0	51,161	276,522	36,235	(1,694,999)	4,304,819
2,631,053	2,759	(411,625)	432,594	0	14,973,184
0	53	357,270	(11,554)	0	5,483,640
0	0	0	295,900	0	1,079,654
0	0	0	(74)	0	792,548
0	0	0	0	0	1
0	0	0	0	0	0
0	0	0	0	0	0
140,640,969	0	1,509,586	0	0	142,150,555
0	4,800	4,703	272,979	0	4,012,618
\$143,272,022	\$119,405	\$2,527,627	\$1,685,114	(\$7,174,950)	\$175,178,403

Consolidating Statements

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LIABILITIES, Continued	Army	Navy	Air Force	Army WCF
5. Liabilities Not Covered by Budgetary Resources:				
a. Transactions with Federal (Intragovernmental) Entities:				
(1) Accounts Payable	\$0	\$210,920	\$0	\$0
(2) Debt (Note 16)	0	0	0	0
(3) Other Federal (Intragovernmental)				
Liabilities (Note 17)	337,434	6,070,000	695,986	0
b. Transactions with Non-Federal (Governmental) Entities:				
(1) Accounts Payable	0	2,301,880	0	0
(2) Debt (Note 16)	0	0	0	0
(3) Lease Liabilities (Note 18)	124,273	0	0	0
(4) Pensions and Other Actuarial Liabilities (Note 19)	1,482,069	1,476,455	1,042,203	128,876
(5) Other Non-Federal (Governmental)				
Liabilities (Note 17)	27,712,155	1,178,739	7,940,780	387,128
c. Total Liabilities Not Covered by Budgetary Resources	\$29,655,931	\$11,237,994	\$9,678,969	\$516,004
6. Total Liabilities	\$36,433,775	\$15,982,098	\$16,854,089	\$1,900,501
NET POSITION (Note 20)				
7. Balances:				
a. Unexpended Appropriations	\$27,286,281	\$59,026,537	\$39,111,856	(\$225,439)
b. Invested Capital	181,592,741	393,702,842	297,300,669	16,780,820
c. Cumulative Results of Operations	(401,535)	14,656	198,523	(3,453,717)
d. Other	0	21,716	2,044	0
e. Future Funding Requirements	(29,655,931)	(11,237,994)	(9,678,969)	(516,004)
f. Total Net Position	\$178,821,556	\$441,527,757	\$326,934,123	\$12,585,660
8. Total Liabilities and Net Position	\$215,255,331	\$457,509,855	\$343,788,212	\$14,486,161

The accompanying notes are an integral part of these statements.

<u>Navy WCF</u>	<u>Air Force WCF</u>	<u>Defense Logistics Agency WCF</u>	<u>Defense Finance and Accounting Service WCF</u>	<u>Defense Commissary Agency WCF</u>	<u>Joint Logistics Systems Center WCF</u>
\$0	\$0	\$0	\$0	\$0	\$0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
1,160,071	198,515	191,226	82,985	64,945	1,804
0	0	0	54,927	30,365	0
\$1,160,071	\$198,515	\$191,226	\$137,912	\$95,310	\$1,804
\$8,192,629	\$3,049,000	\$1,954,064	\$596,505	\$711,865	\$25,882
\$0	\$30,571	\$0	\$0	\$66,666	\$0
23,516,921	44,866,794	20,020,765	95,136	5,168,537	1,615,241
(5,793,059)	(19,034,770)	(9,759,135)	181,083	(5,463,674)	(149,421)
(816,056)	0	0	0	0	0
(1,160,071)	(198,515)	(191,226)	(137,912)	(95,310)	(1,804)
\$15,747,735	\$25,664,080	\$10,070,404	\$138,307	(\$323,781)	\$1,464,016
\$23,940,364	\$28,713,080	\$12,024,468	\$734,812	\$388,084	\$1,489,898

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	U.S. Transportation Command WCF	Defense Information Systems Agency WCF	WCF Component Adjustments *
LIABILITIES, Continued			
5. Liabilities Not Covered by Budgetary Resources:			
a. Transactions with Federal (Intragovernmental) Entities:			
(1) Accounts Payable	\$0	\$0	\$0
(2) Debt (Note 16)	0	0	0
(3) Other Federal (Intragovernmental) Liabilities (Note 17)	0	0	0
b. Transactions with Non-Federal (Governmental) Entities:			
(1) Accounts Payable	0	0	0
(2) Debt (Note 16)	0	0	0
(3) Lease Liabilities (Note 18)	0	0	0
(4) Pensions and Other Actuarial Liabilities (Note 19)	1,804	18,040	0
(5) Other Non-Federal (Governmental) Liabilities (Note 17)	0	0	0
c. Total Liabilities Not Covered by Budgetary Resources	\$1,804	\$18,040	\$0
6. Total Liabilities	\$1,431,765	\$545,448	(\$34,856)
NET POSITION (Note 20)			
7. Balances:			
a. Unexpended Appropriations	\$0	\$0	\$0
b. Invested Capital	1,182,003	412,479	1,303,602
c. Cumulative Results of Operations	(18,476)	(59,842)	(20,405)
d. Other	0	0	47,843
e. Future Funding Requirements	(1,804)	(18,040)	0
f. Total Net Position	\$1,161,723	\$334,597	\$1,331,040
8. Total Liabilities and Net Position	\$2,593,488	\$880,045	\$1,296,184

The accompanying notes are an integral part of these statements.

DoD Military Retirement Trust Fund	National Defense Stockpile Transaction Fund	Other Defense Organizations	U.S. Army Corps of Engineers (Civil Works)	Eliminating Entries	Total
\$0	\$0	\$0	\$0	\$0	\$210,920
0	0	0	0	0	0
0	0	0	0	0	7,103,420
0	0	0	0	0	2,301,880
0	0	0	0	0	0
0	0	0	0	0	124,273
501,074,103	0	219,429,831	0	0	726,352,927
118	496	250,962	0	0	37,555,670
\$501,074,221	\$496	\$219,680,793	\$0	\$0	\$773,649,090
\$644,346,243	\$119,901	\$222,208,420	\$1,685,114	(\$7,174,950)	\$948,827,493
\$0	\$3,980	\$32,453,136	\$1,190,904	\$0	\$158,944,492
0	3,377,691	10,552,936	37,462,256	0	1,038,951,433
0	621,437	982,151	65,951	0	(42,090,233)
0	0	0	19,488	0	(724,965)
(501,074,221)	(496)	(219,680,793)	0	0	(773,649,090)
(\$501,074,221)	\$4,002,612	(\$175,692,570)	\$38,738,599	\$0	\$381,431,637
\$143,272,022	\$4,122,513	\$46,515,850	\$40,423,713	(\$7,174,950)	\$1,330,259,130

Consolidating Statements

Department of Defense
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ASSETS	Army	Navy	Air Force	Army WCF
1. Entity Assets:				
a. Transactions with Federal (Intragovernmental) Entities:				
(1) Fund Balance with Treasury (Note 2)	\$31,343,151	\$64,801,567	\$50,663,271	\$624,162
(2) Investments, Net (Note 4)	1,068	7,532	863	0
(3) Accounts Receivable, Net (Note 5)	953,735	1,928,010	1,378,292	194,706
(4) Interest Receivable	0	0	0	0
(5) Advances and Prepayments	4,304	66,579	1,904	0
(6) Other Federal (Intragovernmental) (Note 6)	0	0	0	0
b. Transactions with Non-Federal (Governmental) Entities:				
(1) Investments (Note 4)	0	297	0	0
(2) Accounts Receivable, Net (Note 5)	260,244	4,360,849	189,637	32,235
(3) Credit Program Receivables/ Related Foreclosed Property, Net (Note 7)	0	0	0	0
(4) Interest Receivable, Net	273	0	0	0
(5) Advances and Prepayments	424,246	202,972	7,106,537	224,603
(6) Other Non-Federal (Governmental) (Note 6)	0	0	0	0
c. Cash and Other Monetary Assets (Note 3)	19,802	51,339	42,437	0
d. Inventory, Net (Note 8)	1,899,923	44	2,200,522	10,760,131
e. Work in Process (Note 9)	0	5,277	0	363,307
f. Operating Materials/Supplies, Net (Note 10)	0	27	0	219,871
g. Stockpile Materials, Net (Note 11)	0	0	0	0
h. Seized Property (Note 12)	0	0	0	0
i. Forfeited Property, Net (Note 13)	0	0	0	0
j. Goods Held Under Price Support and Stabilization Programs, Net (Note 14)	0	0	0	0
k. Property, Plant and Equipment, Net (Note 15)	124,867,674	340,975,064	246,058,972	2,202,679
l. War Reserves	35,769,856	41,441,075	34,318,770	0
m. Other Entity Assets	5,476,723	74	0	800,924
n. Total Entity Assets	\$201,020,999	\$453,840,706	\$341,961,205	\$15,422,618
2. Non-Entity Assets:				
a. Transactions with Federal (Intragovernmental) Entities:				
(1) Fund Balance with Treasury (Note 2)	(\$134,337)	(\$572,625)	\$47,661	\$0
(2) Accounts Receivable, Net (Note 5)	0	117,075	0	0
(3) Interest Receivable, Net	0	0	0	0
(4) Other (Note 6)	0	0	0	0

The accompanying notes are an integral part of these statements.

<u>Navy WCF</u>	<u>Air Force WCF</u>	<u>Defense Logistics Agency WCF</u>	<u>Defense Finance and Accounting Service WCF</u>	<u>Defense Commissary Agency WCF</u>	<u>Joint Logistics Systems Center WCF</u>
\$1,905,994	\$282,115	\$424,157	(\$92,316)	(\$307,990)	(\$165,343)
0	0	0	0	0	0
2,437,997	441,334	769,606	55,060	14,376	3
0	0	0	0	0	0
108,363	7,533	119	0	0	0
56,461	858,338	0	0	0	0
0	0	0	0	0	0
1,610,544	95,322	205,665	37	56,070	0
0	0	0	0	0	0
81	0	0	0	0	0
284,722	161,823	199,752	1,036	934	0
0	0	0	0	0	0
0	1	0	0	0	0
10,528,953	29,129,073	9,542,887	0	347,019	0
1,378,813	762,333	0	0	0	0
626,613	681,672	1,653	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
4,534,689	1,508,537	808,548	517,025	439	1,305,516
0	0	0	0	0	0
203,617	0	246,773	8,456	154,535	0
<u>\$23,676,847</u>	<u>\$33,928,081</u>	<u>\$12,199,160</u>	<u>\$489,298</u>	<u>\$265,383</u>	<u>\$1,140,176</u>
\$0	\$0	\$21,937	\$0	\$0	\$0
0	0	0	0	0	0
0	0	0	0	0	0
375,620	0	0	0	0	0

Consolidating Statements

Department of Defense
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(Thousands)

	U.S. Transportation Command WCF	Defense Information Systems Agency WCF	WCF Component Adjustments *
ASSETS			
1. Entity Assets:			
a. Transactions with Federal (Intragovernmental) Entities:			
(1) Fund Balance with Treasury (Note 2)	\$183,825	\$144,658	\$1,402,404
(2) Investments, Net (Note 4)	0	0	0
(3) Accounts Receivable, Net (Note 5)	1,093,832	401,924	74,819
(4) Interest Receivable	0	0	0
(5) Advances and Prepayments	331	80	14
(6) Other Federal (Intragovernmental) (Note 6)	39,636	2	0
b. Transactions with Non-Federal (Governmental) Entities:			
(1) Investments (Note 4)	0	0	0
(2) Accounts Receivable, Net (Note 5)	190,180	16,804	0
(3) Credit Program Receivables/ Related Foreclosed Property, Net (Note 7)	0	0	0
(4) Interest Receivable, Net	0	0	0
(5) Advances and Prepayments	1,488	5,960	0
(6) Other Non-Federal (Governmental) (Note 6)	0	0	0
c. Cash and Other Monetary Assets (Note 3)	0	0	0
d. Inventory, Net (Note 8)	1,086	0	0
e. Work in Process (Note 9)	0	21,824	0
f. Operating Materials/Supplies, Net (Note 10)	6,237	614	0
g. Stockpile Materials, Net (Note 11)	0	0	0
h. Seized Property (Note 12)	0	0	0
i. Forfeited Property, Net (Note 13)	0	0	0
j. Goods Held Under Price Support and Stabilization Programs, Net (Note 14)	0	0	0
k. Property, Plant and Equipment, Net (Note 15)	1,053,007	305,230	30,215
l. War Reserves	0	0	0
m. Other Entity Assets	0	0	0
n. Total Entity Assets	\$2,569,622	\$897,096	\$1,507,452
2. Non-Entity Assets:			
a. Transactions with Federal (Intragovernmental) Entities:			
(1) Fund Balance with Treasury (Note 2)	\$0	\$0	\$0
(2) Accounts Receivable, Net (Note 5)	0	0	0
(3) Interest Receivable, Net	0	0	0
(4) Other (Note 6)	0	0	0

The accompanying notes are an integral part of these statements.

DoD Military Retirement Trust Fund	National Defense Stockpile Transaction Fund	Other Defense Organizations	U.S. Army Corps of Engineers (Civil Works)	Eliminating Entries	Total
\$57,869	\$290,712	\$31,075,626	\$1,610,934	\$0	\$184,244,796
131,065,203	0	1,422,345	278,995	0	132,776,006
0	35	1,060,159	355,616	(3,551,739)	7,607,765
4,200,579	0	0	1,537	0	4,202,116
0	(749)	167,542	0	(1,060,772)	(704,752)
0	0	0	(12,555)	0	941,882
0	0	0	0	0	297
12,253	285,021	139,565	20,901	0	7,475,327
0	0	0	0	0	0
0	0	27,942	0	0	28,296
0	0	37,714	2,821	0	8,654,608
0	0	81,433	(43,873)	0	37,560
0	0	394	0	0	113,973
0	0	1,619,626	0	0	66,029,264
0	0	0	0	0	2,531,554
0	0	823	9,185	0	1,546,695
0	3,696,491	0	0	0	3,696,491
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	10,059,531	38,657,678	0	772,884,804
0	0	0	0	0	111,529,701
0	0	3,024	219,559	0	7,113,685
\$135,335,904	\$4,271,510	\$45,695,724	\$41,100,798	(\$4,612,511)	\$1,310,710,068
\$0	\$0	\$0	\$54,311	\$0	(\$583,053)
0	0	0	1,842	0	118,917
0	0	0	0	0	0
0	0	0	0	0	375,620

Consolidating Statements

Department of Defense
Statement of Financial Position
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ASSETS, Continued	Army	Navy	Air Force	Army WCF
2. Non-Entity Assets:				
b. Transactions with Non-Federal (Governmental) Entities:				
(1) Accounts Receivable, Net (Note 5)	\$6,478	(\$26,673)	\$9,410	\$0
(2) Interest Receivable, Net	6,058	0	46,616	0
(3) Other (Note 6)	0	0	7,851	0
c. Cash and Other Monetary Assets (Note 3)	143,252	65,316	68,726	0
d. Other Non-Entity Assets	0	0	0	0
e. Total Non-Entity Assets	\$21,451	(\$416,907)	\$180,264	\$0
3. Total Assets	\$201,042,450	\$453,423,799	\$342,141,469	\$15,422,618
LIABILITIES				
4. Liabilities Covered by Budgetary Resources:				
a. Transactions with Federal (Intragovernmental) Entities:				
(1) Accounts Payable	\$2,069,074	\$2,547,156	\$101,602	\$165,191
(2) Interest Payable	0	0	0	0
(3) Debt (Note 16)	0	0	0	0
(4) Other Federal (Intragovernmental) Liabilities (Note 17)	725,319	302,605	722,395	688,079
b. Transactions with Non-Federal (Governmental) Entities:				
(1) Accounts Payable	1,789,207	6,461,703	2,342,764	490,786
(2) Accrued Payroll and Benefits				
(a) Salaries and Wages	1,957,061	250,455	1,057,347	77,009
(b) Annual Accrued Leave	0	0	0	69,409
(c) Severance Pay and Separation Allowance	327,984	405,939	17,275	0
(3) Interest Payable	0	0	0	0
(4) Liabilities for Loan Guarantees (Note 7)	0	0	0	0
(5) Lease Liabilities (Note 18)	0	0	0	0
(6) Pensions and Other Actuarial Liabilities (Note 19)	0	0	0	0
(7) Other Non-Federal (Governmental) Liabilities (Note 17)	218,865	40,253	17,113	66,199
c. Total Liabilities Covered by Budgetary Resources:	\$7,087,510	\$10,008,111	\$4,258,496	\$1,556,673

The accompanying notes are an integral part of these statements.

<u>Navy WCF</u>	<u>Air Force WCF</u>	<u>Defense Logistics Agency WCF</u>	<u>Defense Finance and Accounting Service WCF</u>	<u>Defense Commissary Agency WCF</u>	<u>Joint Logistics Systems Center WCF</u>
\$0	\$0	\$0	\$0	\$0	\$0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	38,362	0	0	0
\$375,620	\$0	\$60,299	\$0	\$0	\$0
\$24,052,467	\$33,928,081	\$12,259,459	\$489,298	\$265,383	\$1,140,176

\$1,844,117	\$516,937	\$826,069	\$175,178	\$260,520	(\$30,531)
0	0	0	0	0	0
1,225,977	0	0	0	0	0
3,512,162	1,005,292	183,069	0	0	0
329,749	503,657	931,484	288,590	431,065	0
368,005	121,889	5,272	3,680	14,928	50
506,741	95,355	96,496	384	0	4,104
0	0	0	0	0	0
0	0	0	250	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
3,060,717	117	65,324	0	0	0
\$10,847,468	\$2,243,247	\$2,107,714	\$468,082	\$706,513	(\$26,377)

Consolidating Statements

Department of Defense
Statement of Financial Position
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	U.S. Transportation Command WCF	Defense Information Systems Agency WCF	WCF Component Adjustments *
ASSETS, Continued			
2. Non-Entity Assets:			
b. Transactions with Non-Federal (Governmental) Entities:			
(1) Accounts Receivable, Net (Note 5)	\$0	\$0	\$0
(2) Interest Receivable, Net	0	0	0
(3) Other (Note 6)	0	0	0
c. Cash and Other Monetary Assets (Note 3)	0	0	0
d. Other Non-Entity Assets	0	0	0
e. Total Non-Entity Assets	\$0	\$0	\$0
3. Total Assets	\$2,569,622	\$897,096	\$1,507,452
LIABILITIES			
4. Liabilities Covered by Budgetary Resources:			
a. Transactions with Federal (Intragovernmental) Entities:			
(1) Accounts Payable	\$388,147	\$188,889	(\$1,357,909)
(2) Interest Payable	0	0	0
(3) Debt (Note 16)	156,786	0	0
(4) Other Federal (Intragovernmental) Liabilities (Note 17)	157,653	18	0
b. Transactions with Non-Federal (Governmental) Entities:			
(1) Accounts Payable	404,377	160,338	4,839
(2) Accrued Payroll and Benefits			
(a) Salaries and Wages	64,627	113,230	0
(b) Annual Accrued Leave	14,531	23,048	0
(c) Severance Pay and Separation Allowance	0	0	0
(3) Interest Payable	0	1	0
(4) Liabilities for Loan Guarantees (Note 7)	0	0	0
(5) Lease Liabilities (Note 18)	0	3,622	0
(6) Pensions and Other Actuarial Liabilities (Note 19)	33	0	0
(7) Other Non-Federal (Governmental) Liabilities (Note 17)	261,583	50,100	0
c. Total Liabilities Covered by Budgetary Resources:	\$1,447,737	\$539,246	(\$1,353,070)

The accompanying notes are an integral part of these statements.

DoD Military Retirement Trust Fund	National Defense Stockpile Transaction Fund	Other Defense Organizations	U.S. Army Corps of Engineers (Civil Works)	Eliminating Entries	Total
\$0	\$0	\$0	\$550,331	\$0	\$539,546
0	0	0	0	0	52,674
0	0	0	0	0	7,851
0	0	11	0	0	277,305
0	0	0	0	0	38,362
\$0	\$0	\$11	\$606,484	\$0	\$827,222
\$135,335,904	\$4,271,510	\$45,695,735	\$41,707,282	(\$4,612,511)	\$1,311,537,290

\$0	\$59,515	\$1,468,393	\$167,978	(\$3,551,739)	\$5,838,587
0	0	0	0	0	0
0	0	0	0	0	1,382,763
0	0	38,313	26,458	(1,060,772)	6,300,591
2,548,044	7,979	(1,985,459)	423,838	0	15,132,961
0	0	477,627	80,889	0	4,592,069
0	0	0	168,866	0	978,934
0	0	0	0	0	751,198
0	0	0	0	0	251
0	0	0	0	0	0
0	0	0	0	0	3,622
132,787,860	0	0	0	0	132,787,893
0	1,558	56,645	131,669	0	3,970,143
\$135,335,904	\$69,052	\$55,519	\$999,698	(\$4,612,511)	\$171,739,012

Consolidating Statements

Department of Defense
Statement of Financial Position
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(Thousands)

LIABILITIES, Continued	Army	Navy	Air Force	Army WCF
5. Liabilities Not Covered by Budgetary Resources:				
a. Transactions with Federal (Intragovernmental) Entities:				
(1) Accounts Payable	\$0	\$0	\$0	\$0
(2) Debt (Note 16)	0	0	0	0
(3) Other Federal (Intragovernmental)				
Liabilities (Note 17)	769,119	0	0	0
b. Transactions with Non-Federal (Governmental) Entities:				
(1) Accounts Payable	0	0	0	0
(2) Debt (Note 16)	0	0	0	0
(3) Lease Liabilities (Note 18)	0	0	0	0
(4) Pensions and Other Actuarial Liabilities (Note 19)	1,313,935	2,161,377	993,134	48,886
(5) Other Non-Federal (Governmental)				
Liabilities (Note 17)	16,128,481	1,148,870	6,142,964	3,017
c. Total Liabilities Not Covered by Budgetary Resources	\$18,211,535	\$3,310,247	\$7,136,098	\$51,903
6. Total Liabilities	\$25,299,045	\$13,318,358	\$11,394,594	\$1,608,576
NET POSITION (Note 20)				
7. Balances:				
a. Unexpended Appropriations	\$27,461,855	\$60,976,097	\$48,303,502	(\$225,439)
b. Invested Capital	168,160,756	382,395,684	289,574,853	14,724,904
c. Cumulative Results of Operations	(1,667,671)	(12,421)	2,830	(633,520)
d. Other	0	56,328	1,788	0
e. Future Funding Requirements	(18,211,535)	(3,310,247)	(7,136,098)	(51,903)
f. Total Net Position	\$175,743,405	\$440,105,441	\$330,746,875	\$13,814,042
8. Total Liabilities and Net Position	\$201,042,450	\$453,423,799	\$342,141,469	\$15,422,618

The accompanying notes are an integral part of these statements.

<u>Navy WCF</u>	<u>Air Force WCF</u>	<u>Defense Logistics Agency WCF</u>	<u>Defense Finance and Accounting Service WCF</u>	<u>Defense Commissary Agency WCF</u>	<u>Joint Logistics Systems Center WCF</u>
\$0	\$0	\$0	\$0	\$0	\$0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	55,757	28,211	0
\$0	\$0	\$0	\$55,757	\$28,211	\$0
\$10,847,468	\$2,243,247	\$2,107,714	\$523,839	\$734,724	(\$26,377)
\$0	\$0	\$0	\$0	\$56,442	\$0
20,695,780	44,980,848	24,768,356	(35,077)	3,822,955	1,287,737
(6,761,473)	(13,286,243)	(8,630,905)	56,293	(4,320,527)	(121,184)
(729,308)	(9,771)	(5,985,706)	0	0	0
0	0	0	(55,757)	(28,211)	0
\$13,204,999	\$31,684,834	\$10,151,745	(\$34,541)	(\$469,341)	\$1,166,553
\$24,052,467	\$33,928,081	\$12,259,459	\$489,298	\$265,383	\$1,140,176

Consolidating Statements

Department of Defense
Statement of Financial Position
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(Thousands)

	U.S. Transportation Command WCF	Defense Information Systems Agency WCF	WCF Component Adjustments *
LIABILITIES, Continued			
5. Liabilities Not Covered by Budgetary Resources:			
a. Transactions with Federal (Intragovernmental) Entities:			
(1) Accounts Payable	\$0	\$0	\$0
(2) Debt (Note 16)	0	0	0
(3) Other Federal (Intragovernmental) Liabilities (Note 17)	0	0	0
b. Transactions with Non-Federal (Governmental) Entities:			
(1) Accounts Payable	0	0	0
(2) Debt (Note 16)	0	0	0
(3) Lease Liabilities (Note 18)	0	0	0
(4) Pensions and Other Actuarial Liabilities (Note 19)	0	0	0
(5) Other Non-Federal (Governmental) Liabilities (Note 17)	0	0	0
c. Total Liabilities Not Covered by Budgetary Resources	\$0	\$0	\$0
6. Total Liabilities	\$1,447,737	\$539,246	(\$1,353,070)
NET POSITION (Note 20)			
7. Balances:			
a. Unexpended Appropriations	\$0	\$7,455	\$1,485,835
b. Invested Capital	1,163,838	417,985	1,346,143
c. Cumulative Results of Operations	(41,953)	(67,590)	(19,126)
d. Other	0	0	47,670
e. Future Funding Requirements	0	0	0
f. Total Net Position	\$1,121,885	\$357,850	\$2,860,522
8. Total Liabilities and Net Position	\$2,569,622	\$897,096	\$1,507,452

The accompanying notes are an integral part of these statements.

<u>DoD Military Retirement Trust Fund</u>	<u>National Defense Stockpile Transaction Fund</u>	<u>Other Defense Organizations</u>	<u>U.S. Army Corps of Engineers (Civil Works)</u>	<u>Eliminating Entries</u>	<u>Total</u>
\$0	\$0	(\$48,917)	\$0	\$0	(\$48,917)
0	0	0	0	0	0
0	0	0	1,641	0	770,760
0	0	5,254	0	0	5,254
0	0	0	0	0	0
0	0	0	0	0	0
414,912,140	0	2,501,462	0	0	421,930,934
110	0	182,803	549,434	0	24,239,647
\$414,912,250	\$0	\$2,640,602	\$551,075	\$0	\$446,897,678
\$550,248,154	\$69,052	\$2,696,121	\$1,550,773	(\$4,612,511)	\$618,636,690
\$0	\$0	\$31,157,739	\$2,242,060	\$0	\$171,465,546
0	3,536,106	10,735,319	38,402,480	0	1,005,978,667
0	666,352	3,747,158	63,044	0	(31,026,936)
0	0	0	0	0	(6,618,999)
(414,912,250)	0	(2,640,602)	(551,075)	0	(446,897,678)
(\$414,912,250)	\$4,202,458	\$42,999,614	\$40,156,509	\$0	\$692,900,600
\$135,335,904	\$4,271,510	\$45,695,735	\$41,707,282	(\$4,612,511)	\$1,311,537,290

Consolidating Statements

Department of Defense
Statement of Operations and Changes in Net Position
For the Period Ended September 30, 1997
(Thousands)

REVENUES AND FINANCING SOURCES	Army	Navy	Air Force	Army WCF
1. Appropriated Capital Used	\$57,008,818	\$62,037,966	\$59,703,432	\$0
2. Revenues from Sales of Goods and Services				
a. To the Public	497,750	905,244	181,231	68,118
b. Intragovernmental	5,384,010	4,215,988	2,906,769	9,489,006
3. Interest and Penalties, Non-Federal	0	703	1,041	0
4. Interest, Federal	356	566	55	0
5. Taxes (Note 21)	0	0	0	0
6. Other Revenues and Financing Sources (Note 22)	2,333,553	910,190	1,674,228	146,513
7. Less: Taxes and Receipts Transferred to the Treasury or Other Agencies	(548,897)	(703)	(1,041)	0
8. Total Revenues and Financing Sources	\$64,675,590	\$68,069,954	\$64,465,715	\$9,703,637
EXPENSES				
9. Program or Operating Expenses (Note 23)	\$57,616,961	\$62,025,670	\$58,987,828	\$1,264,551
10. Cost of Goods Sold (Note 24)				
a. To the Public	497,750	835,391	181,231	73,479
b. Intragovernmental	5,384,010	4,215,988	2,906,769	9,049,980
11. Depreciation and Amortization	0	0	0	54,249
12. Bad Debts and Writeoffs	14,544	71,728	8,802	0
13. Interest				
a. Federal Financing Bank/Treasury Borrowing	0	0	0	0
b. Federal Securities	0	0	0	0
c. Other	20,711	8,745	3,171	0
14. Other Expenses (Note 25)	1,885,089	6,978,812	2,926,782	1,052,666
15. Total Expenses	\$65,419,065	\$74,136,334	\$65,014,583	\$11,494,925
16. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses Before Extraordinary Items	(\$743,475)	(\$6,066,380)	(\$548,868)	(\$1,791,288)
17. Plus (Minus) Extraordinary Items (Note 26)	0	0	0	(22,684)
18. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	(\$743,475)	(\$6,066,380)	(\$548,868)	(\$1,813,972)

The accompanying notes are an integral part of these statements.

<u>Navy WCF</u>	<u>Air Force WCF</u>	<u>Defense Logistics Agency WCF</u>	<u>Defense Finance and Accounting Service WCF</u>	<u>Defense Commissary Agency WCF</u>	<u>Joint Logistics Systems Center WCF</u>
\$0	\$0	\$0	\$0	\$906,214	\$0
101,078	334,834	364,690	329	5,134,642	0
19,012,895	12,313,470	12,263,255	1,782,830	34,906	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
924,536	361,644	244,897	74,897	58,937	1,628
0	0	0	0	0	0
<u>\$20,038,509</u>	<u>\$13,009,948</u>	<u>\$12,872,842</u>	<u>\$1,858,056</u>	<u>\$6,134,699</u>	<u>\$1,628</u>
\$1,246,492	\$2,403,732	\$2,535,115	\$0	\$970,144	\$27,733
101,078	124,508	397,498	0	5,141,668	0
17,510,488	10,978,492	10,064,031	1,511,021	27,389	0
215,470	13,500	92,624	144,632	30	555
0	(1,893)	132	0	6,343	0
86,770	0	0	0	0	0
0	0	0	0	0	0
0	10	143	0	530	0
2,399,628	4,474,002	993,642	74,897	58,651	1,628
<u>\$21,559,926</u>	<u>\$17,992,351</u>	<u>\$14,083,185</u>	<u>\$1,730,550</u>	<u>\$6,204,755</u>	<u>\$29,916</u>
(\$1,521,417)	(\$4,982,403)	(\$1,210,343)	\$127,506	(\$70,056)	(\$28,288)
(566,412)	(3,530)	(825)	0	0	0
<u>(\$2,087,829)</u>	<u>(\$4,985,933)</u>	<u>(\$1,211,168)</u>	<u>\$127,506</u>	<u>(\$70,056)</u>	<u>(\$28,288)</u>

Consolidating Statements

Department of Defense
Statement of Operations and Changes in Net Position
For the Period Ended September 30, 1997
(Thousands)

	U.S. Transportation Command WCF	Defense Information Systems Agency WCF	WCF Component Adjustments *
REVENUES AND FINANCING SOURCES			
1. Appropriated Capital Used	\$0	\$31,906	\$0
2. Revenues from Sales of Goods and Services			
a. To the Public	21,847	412	0
b. Intragovernmental	3,831,010	2,449,349	(190)
3. Interest and Penalties, Non-Federal	0	0	0
4. Interest, Federal	0	0	0
5. Taxes (Note 21)	0	0	0
6. Other Revenues and Financing Sources (Note 22)	544,729	16,288	0
7. Less: Taxes and Receipts Transferred to the Treasury or Other Agencies	0	0	0
8. Total Revenues and Financing Sources	\$4,397,586	\$2,497,955	(190)
EXPENSES			
9. Program or Operating Expenses (Note 23)	\$0	\$0	\$0
10. Cost of Goods Sold (Note 24)			
a. To the Public	26,486	404	0
b. Intragovernmental	4,320,403	2,329,091	1,225
11. Depreciation and Amortization	120,698	136,646	(136)
12. Bad Debts and Writeoffs	7,259	0	0
13. Interest			
a. Federal Financing Bank/Treasury Borrowing	0	0	0
b. Federal Securities	0	0	0
c. Other	5	0	0
14. Other Expenses (Note 25)	1,665	13,869	0
15. Total Expenses	\$4,476,516	\$2,480,010	\$1,089
16. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses Before Extraordinary Items	(78,930)	17,945	(1,279)
17. Plus (Minus) Extraordinary Items (Note 26)	0	0	0
18. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	(78,930)	17,945	(1,279)

The accompanying notes are an integral part of these statements.

DoD Military Retirement Trust Fund	National Defense Stockpile Transaction Fund	Other Defense Organizations	U.S. Army Corps of Engineers (Civil Works)	Eliminating Entries	Total
\$0	\$0	\$43,290,165	\$3,196,835	\$0	\$226,175,336
0	499,918	347,405	17,181	0	8,474,679
0	29,432	912,143	2,500,524	(54,025,394)	23,100,003
0	2,945	0	0	0	4,689
11,859,066	0	98,026	17,021	(11,807,681)	167,409
0	0	0	0	0	0
26,252,570	0	5,322,328	723,571	(26,252,570)	13,337,939
0	(301)	0	(339,325)	0	(890,267)
\$38,111,636	\$531,994	\$49,970,067	\$6,115,807	(\$92,085,645)	\$270,369,788
\$30,258,527	\$56,315	\$43,974,715	\$4,108,984	(\$26,252,570)	\$239,224,197
0	365,701	376,576	5,683	0	8,127,453
0	7,782	5,037,406	323,611	(54,025,394)	19,642,292
0	0	4,725	1,305,029	0	2,088,022
0	232	17,034	0	0	124,181
0	0	0	0	0	86,770
0	0	0	0	0	0
0	0	937	372	0	34,624
15,943,199	0	298,516	218,789	(11,807,681)	25,514,154
\$46,201,726	\$430,030	\$49,709,909	\$5,962,468	(\$92,085,645)	\$294,841,693
(\$8,090,090)	\$101,964	\$260,158	\$153,339	\$0	(\$24,471,905)
(8)	0	0	(1,872)	0	(595,331)
(\$8,090,098)	\$101,964	\$260,158	\$151,467	\$0	(\$25,067,236)

Consolidating Statements

Department of Defense
Statement of Operations and Changes in Net Position
For the Period Ended September 30, 1997
(Thousands)

EXPENSES, Continued	Army	Navy	Air Force	Army WCF
19. Net Position, Beginning Balance, as Previously Stated	\$175,743,405	\$440,105,441	\$330,746,875	\$13,814,042
20. Adjustments (Note 27)	(15,069,514)	0	(2,063,976)	(1,436,160)
21. Net Position, Beginning Balance, as Restated	\$160,673,891	\$440,105,441	\$328,682,899	\$12,377,882
22. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	(743,475)	(6,066,380)	(548,868)	(1,813,972)
23. Plus (Minus) Non Operating Changes (Note 28)	18,891,140	7,488,696	(1,199,908)	2,021,750
24. Net Position, Ending Balance	\$178,821,556	\$441,527,757	\$326,934,123	\$12,585,660

The accompanying notes are an integral part of these statements.

Navy WCF	Air Force WCF	Defense Logistics Agency WCF	Defense Finance and Accounting Service WCF	Defense Commissary Agency WCF	Joint Logistics Systems Center WCF
\$13,204,999	\$31,684,834	\$10,151,745	(\$34,541)	(\$469,341)	\$1,166,553
3,031,250	(756,244)	78,391	0	(250,833)	0
\$16,236,249	\$30,928,590	\$10,230,136	(\$34,541)	(\$720,174)	\$1,166,553
(2,087,829)	(4,985,933)	(1,211,168)	127,506	(70,056)	(28,288)
1,599,315	(278,577)	1,051,436	45,342	466,449	325,751
\$15,747,735	\$25,664,080	\$10,070,404	\$138,307	(\$323,781)	\$1,464,016

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Department of Defense
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EXPENSES, Continued	U.S. Transportation Command WCF	Defense Information Systems Agency WCF	WCF Component Adjustments *
19. Net Position, Beginning Balance, as Previously Stated	\$1,121,885	\$357,850	\$2,860,522
20. Adjustments (Note 27)	102,407	(10,198)	0
21. Net Position, Beginning Balance, as Restated	\$1,224,292	\$347,652	\$2,860,522
22. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	(78,930)	17,945	(1,279)
23. Plus (Minus) Non Operating Changes (Note 28)	16,361	(31,000)	(1,528,203)
24. Net Position, Ending Balance	\$1,161,723	\$334,597	\$1,331,040

The accompanying notes are an integral part of these statements.

DoD Military Retirement Trust Fund	National Defense Stockpile Transaction Fund	Other Defense Organizations	U.S. Army Corps of Engineers (Civil Works)	Eliminating Entries	Total
(\$414,912,250)	\$4,202,458	\$42,999,614	\$40,156,509	\$0	\$692,900,600
(78,071,873)	(18,510)	(218,010,412)	(325,650)	0	(312,801,322)
(\$492,984,123)	\$4,183,948	(\$175,010,798)	\$39,830,859	\$0	\$380,099,278
(8,090,098)	101,964	260,158	151,467	0	(25,067,236)
0	(283,300)	(941,930)	(1,243,727)	0	26,399,595
(\$501,074,221)	\$4,002,612	(\$175,692,570)	\$38,738,599	\$0	\$381,431,637

Consolidating Statements

Department of Defense
Statement of Operations and Changes in Net Position
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REVENUES AND FINANCING SOURCES	Army	Navy	Air Force	Army WCF
1. Appropriated Capital Used	\$55,643,717	\$56,535,616	\$56,262,701	\$0
2. Revenues from Sales of Goods and Services				
a. To the Public	627,185	54,478	227,172	424,179
b. Intragovernmental	5,552,692	6,645,888	2,992,020	10,054,573
3. Interest and Penalties, Non-Federal	0	616	8,934	0
4. Interest, Federal	0	580	47	0
5. Taxes (Note 21)	0	0	0	0
6. Other Revenues and Financing Sources (Note 22)	929,604	4,426	372	(10,425)
7. Less: Taxes and Receipts Transferred to the Treasury or Other Agencies	(432,977)	0	(8,934)	0
8. Total Revenues and Financing Sources	\$62,320,221	\$63,241,604	\$59,482,312	\$10,468,327
EXPENSES				
9. Program or Operating Expenses (Note 23)	\$57,789,003	\$56,466,260	\$55,848,245	\$1,218,950
10. Cost of Goods Sold (Note 24)				
a. To the Public	627,185	48,515	227,172	154,784
b. Intragovernmental	5,552,692	6,672,509	2,992,020	7,615,091
11. Depreciation and Amortization	0	176	0	54,163
12. Bad Debts and Writeoffs	23,252	78,600	6,548	0
13. Interest				
a. Federal Financing Bank/Treasury Borrowing	0	0	0	0
b. Federal Securities	0	0	0	0
c. Other	1,576	237	3,172	1
14. Other Expenses (Note 25)	735,136	0	479,589	1,189,828
15. Total Expenses	\$64,728,844	\$63,266,297	\$59,556,746	\$10,232,817
16. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses Before Extraordinary Items	(2,408,623)	(24,693)	(74,434)	\$235,510
17. Plus (Minus) Extraordinary Items (Note 26)	0	0	0	(13,664)
18. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	(2,408,623)	(24,693)	(74,434)	\$221,846

The accompanying notes are an integral part of these statements.

<u>Navy WCF</u>	<u>Air Force WCF</u>	<u>Defense Logistics Agency WCF</u>	<u>Defense Finance and Accounting Service WCF</u>	<u>Defense Commissary Agency WCF</u>	<u>Joint Logistics Systems Center WCF</u>
\$0	\$0	\$0	\$0	\$822,258	\$0
236,032	142,501	392,855	0	5,236,286	0
24,014,812	13,534,595	12,733,177	1,631,285	47,147	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
127,669	165,413	101,321	33,961	1,583	0
0	0	0	0	0	0
\$24,378,513	\$13,842,509	\$13,227,353	\$1,665,246	\$6,107,274	\$0
\$2,581,038	\$2,493,601	\$4,497,343	\$0	\$981,520	\$37,994
34,488	142,737	156,912	0	5,296,086	0
21,780,840	11,692,998	8,554,585	1,534,924	42,109	0
239,733	119,173	76,510	120,673	355	555
0	5,611	19	0	232	0
0	0	0	0	0	0
0	0	0	0	0	0
0	30	224	0	398	0
3,664,391	(2,769,052)	820,516	384	322	0
\$28,300,490	\$11,685,098	\$14,106,109	\$1,655,981	\$6,321,022	\$38,549
(\$3,921,977)	\$2,157,411	(\$878,756)	\$9,265	(\$213,748)	(\$38,549)
477,550	(33,127)	(2,500)	0	0	0
(\$3,444,427)	\$2,124,284	(\$881,256)	\$9,265	(\$213,748)	(\$38,549)

Consolidating Statements

Department of Defense
Statement of Operations and Changes in Net Position
For the Period Ended September 30, 1996
(Thousands)

	U.S. Transportation Command WCF	Defense Information Systems Agency WCF	WCF Component Adjustments *
REVENUES AND FINANCING SOURCES			
1. Appropriated Capital Used	\$0	\$30,396	\$0
2. Revenues from Sales of Goods and Services			
a. To the Public	20,178	170,816	0
b. Intragovernmental	3,940,606	2,587,493	(1,512)
3. Interest and Penalties, Non-Federal	0	0	0
4. Interest, Federal	0	0	0
5. Taxes (Note 21)	0	0	0
6. Other Revenues and Financing Sources (Note 22)	71,225	7,237	0
7. Less: Taxes and Receipts Transferred to the Treasury or Other Agencies	0	0	0
8. Total Revenues and Financing Sources	\$4,032,009	\$2,795,942	(1,512)
EXPENSES			
9. Program or Operating Expenses (Note 23)	\$0	\$0	\$0
10. Cost of Goods Sold (Note 24)			
a. To the Public	20,100	136,231	0
b. Intragovernmental	3,925,582	2,512,373	8,724
11. Depreciation and Amortization	95,295	143,767	2,260
12. Bad Debts and Writeoffs	6,041	81	0
13. Interest			
a. Federal Financing Bank/Treasury Borrowing	0	0	0
b. Federal Securities	0	0	0
c. Other	0	0	0
14. Other Expenses (Note 25)	429	4,286	0
15. Total Expenses	\$4,047,447	\$2,796,738	\$10,984
16. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses Before Extraordinary Items	(15,438)	(796)	(12,496)
17. Plus (Minus) Extraordinary Items (Note 26)	0	0	0
18. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	(15,438)	(796)	(12,496)

The accompanying notes are an integral part of these statements.

DoD Military Retirement Trust Fund	National Defense Stockpile Transaction Fund	Other Defense Organizations	U.S. Army Corps of Engineers (Civil Works)	Eliminating Entries	Total
\$0	\$0	\$39,939,047	\$3,708,850	\$0	\$212,942,585
0	365,982	658,380	0	0	8,556,044
0	54,267	4,971,838	3,301,497	(47,063,278)	44,997,100
0	0	0	14	0	9,564
11,280,558	0	88,381	15,519	0	11,385,085
0	0	0	0	0	0
21,873,163	1,442	1,088,351	262,072	0	24,657,414
0	0	(17,936)	(191,786)	0	(651,633)
\$33,153,721	\$421,691	\$46,728,061	\$7,096,166	(\$47,063,278)	\$301,896,159
\$28,991,489	\$59,360	\$40,507,677	\$5,945,585	\$0	\$257,418,065
0	141,543	744,349	0	0	7,730,102
0	14,222	4,618,048	812,971	(47,063,278)	31,266,410
0	0	355,910	349,603	0	1,558,173
0	120	1,911	70	0	122,485
0	0	0	0	0	0
0	0	0	0	0	0
0	0	871	0	0	6,509
18,600,000	0	298,348	0	0	23,024,177
\$47,591,489	\$215,245	\$46,527,114	\$7,108,229	(\$47,063,278)	\$321,125,921
(\$14,437,768)	\$206,446	\$200,947	(\$12,063)	\$0	(\$19,229,762)
(7)	0	0	0	0	428,252
(\$14,437,775)	\$206,446	\$200,947	(\$12,063)	\$0	(\$18,801,510)

Consolidating Statements

Department of Defense
Statement of Operations and Changes in Net Position
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EXPENSES, Continued	Army	Navy	Air Force	Army WCF
19. Net Position, Beginning Balance, as Previously Stated	\$211,231,585	\$443,232,471	\$315,528,856	\$12,735,383
20. Adjustments (Note 27)	(13,685,466)	(1)	3,788,199	1,239,614
21. Net Position, Beginning Balance, as Restated	\$197,546,119	\$443,232,470	\$319,317,055	\$13,974,997
22. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	(2,408,623)	(24,693)	(74,434)	221,846
23. Plus (Minus) Non Operating Changes (Note 28)	(19,394,091)	(3,102,336)	11,504,254	(382,801)
24. Net Position, Ending Balance	\$175,743,405	\$440,105,441	\$330,746,875	\$13,814,042

The accompanying notes are an integral part of these statements.

Navy WCF	Air Force WCF	Defense Logistics Agency WCF	Defense Finance and Accounting Service WCF	Defense Commissary Agency WCF	Joint Logistics Systems Center WCF
\$19,620,121	\$29,663,386	\$10,876,495	\$298,507	(\$808,093)	\$832,383
(1,872,621)	(4,679,558)	(375,389)	33	(47)	0
\$17,747,500	\$24,983,828	\$10,501,106	\$298,540	(\$808,140)	\$832,383
(3,444,427)	2,124,284	(881,256)	9,265	(213,748)	(38,549)
(1,098,074)	4,576,722	531,895	(342,346)	552,547	372,719
\$13,204,999	\$31,684,834	\$10,151,745	(\$34,541)	(\$469,341)	\$1,166,553

Consolidating Statements

Department of Defense
Statement of Operations and Changes in Net Position
For the Period Ended September 30, 1996
(Thousands)

EXPENSES, Continued	U.S. Transportation Command WCF	Defense Information Systems Agency WCF	WCF Component Adjustments *
19. Net Position, Beginning Balance, as Previously Stated	\$1,012,501	\$347,304	\$2,352,124
20. Adjustments (Note 27)	0	62,090	0
21. Net Position, Beginning Balance, as Restated	\$1,012,501	\$409,394	\$2,352,124
22. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	(15,438)	(796)	(12,496)
23. Plus (Minus) Non Operating Changes (Note 28)	124,822	(50,748)	520,894
24. Net Position, Ending Balance	\$1,121,885	\$357,850	\$2,860,522

The accompanying notes are an integral part of these statements.

DoD Military Retirement Trust Fund	National Defense Stockpile Transaction Fund	Other Defense Organizations	U.S. Army Corps of Engineers (Civil Works)	Eliminating Entries	Total
(\$407,169,291)	\$4,270,691	\$41,966,036	\$40,230,122	\$0	\$726,220,581
6,694,816	(123,784)	(48,901)	0	0	(9,001,015)
(\$400,474,475)	\$4,146,907	\$41,917,135	\$40,230,122	\$0	\$717,219,566
(14,437,775)	206,446	200,947	(12,063)	0	(18,801,510)
0	(150,895)	881,532	(61,550)	0	(5,517,456)
(\$414,912,250)	\$4,202,458	\$42,999,614	\$40,156,509	\$0	\$692,900,600

DEPARTMENT OF DEFENSE

***AGENCY-WIDE
FINANCIAL STATEMENTS***

***SUPPLEMENTAL FINANCIAL AND
MANAGEMENT INFORMATION***

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SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

DEPARTMENT OF DEFENSE - APPROPRIATIONS, FUNDS AND ACCOUNTS

Department of the Army Entity Funds:

21 0702	Family Housing, Army (fiscal year)
21 7020	Family Housing, Army Construction
21X1705	National Board for the Promotion of Rifle Practice, Army
21 1705	National Board for the Promotion of Rifle Practice, Army (fiscal year)
21X1805	Salaries and Expenses, Cemeterial Expenses, Army
21 2010	Military Personnel, Army (fiscal year)
21X2020	Operation and Maintenance, Army
21 2020	Operation and Maintenance, Army (fiscal year)
21 2031	Aircraft Procurement, Army (fiscal year)
21 2032	Missile Procurement, Army (fiscal year)
21 2033	Procurement of Weapons and Tracked Combat Vehicles, Army (fiscal year)
21 2034	Procurement of Ammunition, Army (fiscal year)
21 2035	Other Procurement, Army (fiscal year)
21 2040	Research, Development, Test, and Evaluation, Army (fiscal year)
21 2050	Military Construction, Army (fiscal year)
21 2060	National Guard Personnel, Army (fiscal year)
21 2065	Operation and Maintenance, Army National Guard (fiscal year)
21 2070	Reserve Personnel, Army (fiscal year)
21 2080	Operation and Maintenance, Army Reserve (fiscal year)
21 2085	Military Construction, Army National Guard (fiscal year)
21 2086	Military Construction, Army Reserve (fiscal year)
21X4528	Working Capital Fund, Army Conventional Ammunition
21X5095	Wildlife Conservation, etc., Military Reservations, Army
21X5098	Restoration, Rocky Mountain Arsenal, Army
21X5194	Department of Defense, 50th Anniversary of World War II Commemoration Account, Army
21X5285	Forest and Wildlife Conservation, Military Reservations
21X5286	National Science Center, Army
21X8063	Bequest of Major General Fred C. Ainsworth Library, Walter Reed Army Medical Center
21X8927	Department of the Army General Gift Fund

Department of the Army Non-entity Funds:

21X6001	Proceeds of Sales of Lost, Abandoned, or Unclaimed Personal Property, Army
21X6002	Personal Funds of Deceased, Mentally Incompetent or Missing Personnel, Army
21X6010	Army Members Savings Deposit - Desert Shield/Desert Storm Savings Program
21X6015	Funds of Civilian Internees and Prisoners of War, Army
21X6031	Effects of Mentally Incompetent Soldiers, United States Army
21X6050	Employees' Payroll allotment Account, United States Savings Bonds
21 6060	Estates of Deceased Soldiers, Regular Army (fiscal year)
21X6075	Withheld Allotment of Compensation for Payment of Employee Organization Dues, Army
21X6083	Withheld Allotment of Compensation for Charitable Contributions, Army

SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

21X6105	Withheld Employee Contributions, State or Territorial Retirement, Army
21X6108	Employer Contributions, State or Territorial Retirement, Army
21X6112	Withheld Employee Contributions, State or Territorial Disability Benefits, Army
21X6113	Withheld Employee Contributions, State or Territorial Death Benefits, Army
21X6129	Foreign Taxes Withheld, Army
21X6131	Employee and Employer Contributions, Private Insurance Plans, Army
21X6134	Amounts Withheld for Civilian Pay Allotments, Army
21X6208	Amounts Withheld for Group Life Insurance, National Guard Members, Army
21X6275	Withheld Income Taxes
21X6325	Coupons, Petroleum, Oil and Lubricants, Army
21X6434	Servicemen's Group Life Insurance Fund, Suspense, Army
21 6763	Gains and Deficiencies on Exchange Transactions, Army (fiscal year)
21X6875	Budget Clearing Account
21X6999	Accounts Payable, Check Issue Underdrafts, Army

Department of the Navy Entity Funds:

17X0380	Coastal Defense Augmentation, Navy
17 0703	Family Housing, Navy and Marine Corps (fiscal year)
17X0810	Environmental Restoration, Navy
17 1105	Military Personnel, Marine Corps (fiscal year)
17 1106	Operation and Maintenance, Marine Corps (fiscal year)
17 1107	Operation and Maintenance, Marine Corps Reserve (fiscal year)
17 1108	Reserve Personnel, Marine Corps (fiscal year)
17 1109	Procurement, Marine Corps (fiscal year)
17 1205	Military Construction, Navy (fiscal year)
17 1235	Military Construction, Naval Reserve (fiscal year)
17X1236	Payments to Kaho'Olawe Island Conveyance, Remediation, and Environmental Restoration Fund, Navy
17X1319	Research, Development, Test and Evaluation, Navy
17 1319	Research, Development, Test, and Evaluation, Navy (fiscal year)
17 1405	Reserve Personnel, Navy (fiscal year)
17 1453	Military Personnel, Navy (fiscal year)
17 1506	Aircraft Procurement, Navy (fiscal year)
17 1507	Weapons Procurement, Navy (fiscal year)
17 1508	Procurement of Ammunition, Navy and Marine Corps (fiscal year)
17X1611	Shipbuilding and Conversion, Navy
17 1611	Shipbuilding and Conversion, Navy (fiscal year)
17 1804	Operation and Maintenance, Navy (fiscal year)
17 1806	Operation and Maintenance, Navy Reserve (fiscal year)
17 1810	Other Procurement, Navy (fiscal year)
17X3980	Navy Management Fund
17X4557	National Defense Sealift Fund, Navy
17 4557	National Defense Sealift Fund, Navy (fiscal year)
17X5095	Wildlife Conservation, etc., Military Reservations, Navy
17X5185	Kaho'Olawe Island Conveyance, Remediation and Environmental Restoration Fund, Navy
17X5429	Rossmoor Liquidating Trust Settlement Account

SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

17X8008	Office of Naval Records and History Fund
17X8423	Midshipmen's Store, United States Naval Academy
17X8716	Department of the Navy General Gift Fund
17X8723	Ships' Stores Profits, Navy
17X8730	United States Naval Academy Museum Fund
17X8733	United States Naval Academy General Gift Fund

Department of the Navy Non-entity Funds:

17 3041	Recoveries Under the Foreign Military Sales Programs
17 3210	General Fund Proprietary Receipts, Defense Military, Not Otherwise Classified
17X6001	Proceeds of Sales of Lost, Abandoned, or Unclaimed Personal Property, Navy
17X6002	Personal Funds of Deceased, Mentally Incompetent or Missing Personnel, Navy
17X6025	Pay of the Navy, Deposit Fund
17X6026	Pay of the Marine Corps, Deposit Fund
17X6050	Employee Payroll Allotment Account (U.S. Bonds)
17X6075	Withheld Allotment of Compensation for Payment of Employee Organization Dues, Navy
17X6083	Withheld Allotment of Compensation for Charitable Contributions, Navy
17X6134	Amounts Withheld for Civilian Pay Allotments, Navy
17X6275	Withheld State and Local Income Taxes
17X6434	Servicemen's Group Life Insurance Fund, Suspense, Navy
17X6705	Civilian Employees Allotment Account, Navy
17X6706	Commercial Communication Service, Navy
17 6763	Gains and Deficiencies on Exchange Transactions Navy (fiscal year)
17X6850	Housing Rentals, Navy
17X6875	Suspense, Navy
17X6999	Accounts Payable, Check Issue Underdrafts, Navy
17X8082	Intra-Budgetary Transactions - Trust Funds National Defense

Department of the Air Force Entity Funds:

57 0704	Family Housing, Air Force (fiscal year)
57X1999	Unclassified Receipts and Expenditures, Air Force
57 3010	Aircraft Procurement, Air Force (fiscal year)
57 3011	Procurement of Ammunition, Air Force (fiscal year)
57 3020	Missile Procurement, Air Force (fiscal year)
57 3080	Other Procurement, Air Force (fiscal year)
57X3300	Military Construction, Air Force
57 3300	Military Construction, Air Force (fiscal year)
57 3400	Operation and Maintenance, Air Force (fiscal year)
57 3500	Military Personnel, Air Force (fiscal year)
57 3600	Research, Development, Test, and Evaluation, Air Force (fiscal year)
57 3700	Reserve Personnel, Air Force (fiscal year)
57 3730	Military Construction, Air Force Reserve (fiscal year)
57 3740	Operation and Maintenance, Air Force Reserve (fiscal year)
57 3830	Military Construction, Air National Guard (fiscal year)
57 3840	Operation and Maintenance, Air National Guard (fiscal year)
57 3850	National Guard Personnel, Air Force (fiscal year)

SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

57X3960	Air Force Management Fund
57X5095	Wildlife Conservation, etc., Military Reservations, Air Force
57X8418	Air Force Cadet Fund
57X8928	Department of the Air Force General Gift Fund

Department of the Air Force Non-entity Funds:

57X6001	Proceeds of Sales of Lost, Abandoned, or Unclaimed Personal Property, Air Force
57X6002	Personal Funds of Deceased, Mentally Incompetent or Missing Personnel, Air Force
57X6010	Pay of the Air Force, Deposit Fund
57X6031	Effects of Mentally Incompetent Soldiers, United States Air Force
57 6050	Employees' Payroll Allotment Account, United States Savings Bonds
57 6060	Estates of Deceased Airmen, Regular Air Force (fiscal year)
57X6075	Withheld Allotment of Compensation for Payment of Employee Organization Dues, Air Force
57X6083	Withheld Allotment of Compensation for Department of the Air Force
57X6105	Withheld Employee Contributions, State or Territorial Retirement, Air Force
57X6108	Employer Contributions, State or Territorial Retirement, Air Force
57X6112	Withheld Employee Contributions, State or Territorial Disability Benefits, Air Force
57X6113	Withheld Employee Contributions, State or Territorial Death Benefits, Air Force
57X6129	Foreign Taxes Withheld, Air Force
57 6275	Withheld State and Local Taxes, Air Force
57X6875	Suspense, Air Force

Department of Defense - Working Capital Funds

97X4930.01	Army Working Capital Fund
97X4930.02	Navy Working Capital Fund
97X4930.03	Air Force Working Capital Fund
97X9730.04	OSD Corporate Account Working Capital Fund
97X4930.05	Defense Logistics Agency Working Capital Fund
97X4930.05	Defense Finance and Accounting Service Working Capital Fund
97X4930.05	Defense Commissary Agency Working Capital Fund
97X4930.05	Joint Logistics Systems Center Working Capital Fund
97X4930.05	Defense Information Systems Agency Working Capital Fund
97X4930.05	U. S. Transportation Command Working Capital Fund
97X8097	Department of Defense Military Retirement Fund
97X4555	National Defense Stockpile Transaction Fund

Other Defense Organizations Entity Funds:

97 0040	Payments to Military Retirement Fund, Defense (fiscal year)
97X0100	Operation and Maintenance, Defense-Wide
97 0100	Operation and Maintenance, Defense-Wide (fiscal year)
97 0101	Contingencies, Defense
97 0102	Claims, Defense
97 0103	Base Realignment and Closure Account, Part I, Defense (fiscal year)

SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

97 0104	Court of Military Appeals, Defense (fiscal year)
97 0105	Drug Interdiction and Counter-Drug Activities, Defense (fiscal year)
97 0106	Goodwill Games, Defense (fiscal year)
97 0107	Office of the Inspector General (fiscal year)
97 0108	Emergency Expenses, Defense Account
97X0110	Persian Gulf Regional Defense Fund, Defense
97 0115	Corporate Information Management (Business Process Reengineering)
97 0116	Summer Olympics, Defense (fiscal year)
97 0130	Defense Health Program, Defense (fiscal year)
97 0131	Real Property Maintenance, Defense (fiscal year)
97X0132	Claims, Mount Pinatubo, Defense
97 0132	Claims, Mount Pinatubo, Defense (fiscal year)
97 0133	Payment to Coast Guard, Defense (fiscal year)
97X0134	Former Soviet Union Threat Reduction, Defense
97 0300	Procurement, Defense-Wide (fiscal year)
97 0350	National Guard and Reserve Equipment, Defense (fiscal year)
97X0360	Defense Production Act Purchases, Defense
97 0360	Defense Production Act Purchases, Defense (fiscal year)
97 0370	NATO Cooperative Defense Fund
97X0390	Chemical Agents and Munitions Destruction, Defense
97 0390	Chemical Agents and Munitions Destruction, Defense (fiscal year)
97X0400	Research, Development, Test, and Evaluation, Defense-Wide
97 0400	Research, Development, Test, and Evaluation, Defense-Wide (fiscal year)
97 0450	Developmental Test and Evaluation, Defense (fiscal year)
97 0460	Operational Test and Evaluation, Defense (fiscal year)
97 0500	Military Construction, Defense-Wide (fiscal year)
97X0510	Base Realignment and Closure Account, Part II, Defense
97 0706	Family Housing, Defense-Wide (fiscal year)
97 0800	Special Foreign Currency Program, Defense
97X0801	Foreign Currency Fluctuations, Defense
97X0803	Foreign Currency Fluctuation, Construction, Defense
97X0804	North Atlantic Treaty Organization Infrastructure, Defense
97 0805	MILCON Reserve Components
97 0809	Acquisition, Construction, and Improvements, Coast Guard, Defense (fiscal year)
97X0810	Environmental Restoration, Defense
97X0819	Humanitarian Assistance, Defense
97 0819	Humanitarian Assistance, Defense (fiscal year)
97 0826	Mildred & Claude Pepper Foundation
97 0827	World University Games, Defense (fiscal year)
97 0828	Defense Reinvestment for Economic Growth, Defense (fiscal year)
97 0829	World Cup USA, Defense (fiscal year)
97 0832	Special Olympics - World Games
97X3910	ADP Equipment Management Fund, Defense
97X4090	Homeowners Assistance Fund, Defense
97 4090	Homeowners Assistance Fund, Defense (fiscal year)
97X4093	William Langer Jewel Bearing Plant Revolving Fund, Defense
97X4931	Buildings Maintenance Fund

SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

97X4950	Pentagon Reservation Maintenance Revolving Fund
97X4965	Emergency Response Fund, Defense
97 5186	Defense Cooperation Account
97X5187	Defense Cooperation Account, Defense
97X5188	Disposal of Department of Defense Real Property
97X5189	Lease of Department of Defense Real Property
97X5193	Department of Defense Overseas Military Facility Investment Recovery Account
97X5195	Use of Proceeds from the Transfer or Disposition of Commissary Facilities, Defense
97X5196	Theater Missile Defense Cooperation Account, Defense
97X5441	Burdensharing Contribution, Defense
97X8096	Department of Defense Dependents' Education Gift Fund
97X8098	Department of Defense, Education Benefits Fund
97 8164	Surcharge Collections, Sales of Commissary Stores
97X8165	Foreign National Employees Separation Pay Account, Defense
97X8168	National Security Education Trust Fund
97X8311	Uniformed Services University of the Health Sciences Gift Fund
97X8335	Voluntary Separation Incentive Trust Fund

Other Defense Organizations Non-entity Funds:

97X6001	Proceeds of Sales of Lost, Abandoned, or Unclaimed Personal Property, Office of Secretary of Defense
97X6050	Employees Payroll Allotment Account, U.S. Savings Bonds
97X6130	Employee and Employer Contributions, Foreign Government Social Security and Related Programs, Office of Secretary of Defense
97X6131	Employee and Employer Contributions, Insurance Plans, Office of Secretary of Defense
97X6147	NATO Airborne Early Warning Program, Office of Secretary of Defense
97X6149	Cooperative Research & Development Project Fund, Defense Intelligence Agency
97X6275	Withheld State and Local Taxes
97X6875	Deposit Fund Suspense

U.S. Army Corps of Engineers Entity Funds:

96X3112	Flood Control, Mississippi River and Tributaries, Corps of Engineers, Civil
96X3121	General Investigations, Corps of Engineers, Civil
96X3122	Construction, General, Corps of Engineers, Civil
96X3123	Operation and Maintenance, General, Corps of Engineers, Civil
96 3123	Operation and Maintenance, General, Corps of Engineers, Civil (fiscal year)
96X3124	General Expenses, Corps of Engineers, Civil
96 3124	General Expenses, Corps of Engineers, Civil
96X3125	Flood Control and Coastal Emergencies, Corps of Engineers, Civil
96 3125	Flood Control and Coastal Emergencies, Corps of Engineers, Civil (fiscal year)
96X3126	General Regulator Functions, Corps of Engineers, Civil
96X3930	Consolidated Working Fund, Army, Engineers, Civil
96X4902	Revolving Fund, Corps of Engineers, Civil
96X5007	Special Recreation Use Fees, Corps of Engineers, Civil

SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

96X5066	Hydraulic Mining in California, Debris Fund
96X5090	Payments to States, Flood Control Act of 1954
96X5125	Maintenance and Operation of Dams and Other Improvements of Navigable Waters
96X8333	Coastal Wetlands Restoration Trust Fund
96X8862	Rivers and Harbors Contributed and Advance Funds, Corps of Engineers, Civil
96X8868	Oil Spill Research Corps of Engineers, Civil
96X6999	Account Payable, Check Issue Overdrafts, Corps of Engineers, Civil

U.S. Army Corps of Engineers Non-entity Funds:

96X6075	Withheld Allotment of Compensation for Payment of Employee Organization Dues, Corps of Engineers, Civil
96X6083	Withheld Allotment of Compensation for Charitable Contributions, Corps of Engineers, Civil
96X6094	Advances from the District of Columbia, Corps of Engineers, Civil
96X6134	Amounts Withheld for Civilian Pay Allotments, Corps of Engineers
96X6145	Technical Assistance, United States Dollars Advanced from Foreign Government, Corps of Engineers, Civil
96X6302	Moneys Withheld from Contractors, Corps of Engineers, Civil

The following are applicable to multiple DoD Reporting Entities.

F3875	Budget Clearing Account (suspense)
F3878	Budget Clearing Account (Deposits)
F3879	Undistributed Letter of Credit Differences
F3880	Unavailable Check Cancellations and Overpayments
F3885	Undistributed Intra-Governmental Payments
F3886	Civilian Thrift Savings Plan

DEPARTMENT OF DEFENSE

***AGENCY-WIDE
FINANCIAL STATEMENTS***

AUDIT OPINION

AUDIT OPINION

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INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202

February 27, 1998

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER) AND
CHIEF FINANCIAL OFFICER
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE

SUBJECT: Disclaimer of Opinion on the Department of Defense Consolidated Financial
Statements for FY 1997 (Project No. 7FI-2030)

The Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994, requires financial statement audits by the Inspectors General and prescribes the responsibilities of management and the auditors for the financial statements, internal controls, and compliance with laws and regulations. As the Chief Financial Officer of DoD, the Under Secretary of Defense (Comptroller) is responsible for establishing and maintaining internal controls and for complying with laws and regulations applicable to DoD financial accounting and reporting. Our responsibility is to render an opinion on the financial statements based on our audit, and to determine whether internal controls were adequate and whether DoD complied with laws and regulations. We delegated to the Military Department audit agencies the audits of the Departments of Army, Navy and Air Force financial statements.

Disclaimer of Opinion. We were unable to render an opinion on the DoD Consolidated Financial Statements for FYs 1997 and 1996. The DoD Consolidated Financial Statements were not received in a timely manner, and a legal representation letter was not provided. Although progress continues, significant deficiencies in the accounting systems and the lack of sound internal controls prevented the preparation of accurate financial statements. The accounting data were not reliable, and we were unable to satisfy ourselves that the data were accurate and complete. For example, the Defense Security Assistance Agency financial statements did not include accounting data on approximately \$15.1 billion of transactions. Also, we could not verify the accuracy of approximately \$218 billion reported for military retirees' medical benefits.

Our disclaimer was partially based on work performed by the Military Department audit agencies. The Army Audit Agency could not verify the accuracy of approximately \$27.7 billion reported for non-Federal liabilities not covered by budgetary resources. The Naval Audit Service determined that property, plant, and equipment was understated by at least \$10.8 billion. The Air Force Audit Agency could not verify the accuracy of \$24.5 billion in inventory.

Because of accounting system and internal control deficiencies and significant scope limitations, the scope of our work was not sufficient to allow us to render an opinion on the FYs 1997 and 1996 DoD Consolidated Financial Statements.

Accounting Principles. The DoD Consolidated Financial Statements for FYs 1997 and 1996 were to be prepared in accordance with Office of Management and Budget (OMB) Bulletin No. 94-01, "Form and Content of Agency Financial Statements," November 16, 1993, as supplemented by OMB Bulletin No. 97-01, "Form and Content of Agency Financial

Statements," October 16, 1996. These Bulletins incorporate the Statements of Federal Financial Accounting Concepts and Standards recommended by the Federal Accounting Standards Advisory Board, which are approved by the Secretary of the Treasury; the Director, OMB; and the Comptroller General of the United States. Footnote 1 of the DoD Consolidated Financial Statements discusses the significant accounting policies that DoD followed in preparing the financial statements.

Internal Controls. We reviewed the internal controls for the reporting entities included in the DoD Consolidated Financial Statements for FY 1997. The internal controls consist of the overall control environment, accounting systems, and control procedures that provide reasonable assurance that accounting data are accumulated, recorded, and reported properly by management and that assets are safeguarded. We performed applicable tests of the internal controls to determine whether the controls were effective and working as designed.

The DoD internal controls were not adequate to ensure that resources were properly managed and accounted for and that the financial statements were free of material misstatements. In the FY 1997 Annual Statements of Assurance for DoD and the Defense Finance and Accounting Service, the most significant conditions we found were also acknowledged as material weaknesses. The DoD accounting systems were not integrated, and DoD did not provide adequate documentation, audit trails, and general ledger controls. Control procedures over assets were inadequate and caused inaccurate reporting of real and personal property, Government-furnished property, inventory, and foreign military sales.

Compliance With Laws and Regulations. We assessed compliance with laws and regulations related to the DoD Consolidated Financial Statements. Accounting systems and internal controls did not completely or accurately disclose the financial condition of DoD as required by title 31, United States Code. DoD did not always comply with OMB Bulletin No. 94-01 in areas such as Operating Materials and Supplies, Inventory, Capital Leases, and Contingent Liabilities. Under the Federal Financial Management Improvement Act of 1996 and OMB Bulletin No. 93-06, Addendum 1, "Audit Requirements for Federal Financial Statements," January 16, 1998, our work disclosed that financial management systems did not comply with Federal financial management system requirements; applicable Federal accounting standards; and the United States Government Standard General Ledger at the transaction level.

Additional Reports. This is the first in a series of reports related to the DoD Consolidated Financial Statements for FY 1997. This report briefly summarizes the major deficiencies affecting DoD. Later reports will discuss internal controls and laws and regulations in more detail.



David K. Steensma
Deputy Assistant Inspector General
for Auditing

